



**GALILEE**  
ENERGY LIMITED

**ANNUAL REPORT 2011**



**GALILEE**  
ENERGY LIMITED

# CORPORATE DIRECTORY

## **DIRECTORS & MANAGEMENT**

Steven J Koroknay - Non-executive Chairman  
Lester (Cam) Rathie - Non-executive Director  
Rino Camarri - Non-executive Director  
Glenn Haworth - Chief Executive Officer  
Simon Brodie - Chief Financial Officer

## **COMPANY SECRETARY**

Bill Lyne

ACN 064 957 419

## **PRINCIPAL REGISTERED OFFICE**

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## **SHARE REGISTRY**

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117 Victoria Street  
West End Qld 4101  
Phone: 1300 850 505

GPO Box 2975  
Melbourne Victoria 3001

## **STOCK EXCHANGE**

Australian Securities Exchange  
Home Branch: Brisbane

## **AUDITORS**

BDO Audit (Qld) Pty Ltd  
300 Queen Street  
Brisbane QLD 4000

## **SOLICITORS**

Norton Rose Australia  
Grosvenor Place  
225 George St  
Sydney NSW 2000

## **BANKERS**

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Brisbane QLD 4000

## **CORPORATE & INVESTORS RELATIONS**

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## Chairman's letter

Dear Shareholders,

The key achievement for the year was the sale of our New Zealand coal assets which contributed to three positive outcomes; we have:

- 1) completed the transformation of the group into a hydrocarbon energy company,
- 2) financial competence that will be the foundation for future growth, and
- 3) recorded a significant profit for the financial year, albeit on the back of a one-off event.

At the same time the evaluation of our Coal Seam Gas (CSG) assets has advanced to the point where the first formal report of resources has been provided by our consultants based on the work done in our permit ATP 529P (details outlined in the CEO's report). At Glenaras the pilot work to achieve gas production, required to declare reserves, is progressing to the point where we anticipate positive conclusions to be available in the next six months or so.

Field activity in the wholly controlled permit ATP 799P will potentially recommence in 12 months, but we are keen to see the results of the test activity at Glenaras before we commence spending more money on our 100% controlled block.

One cannot talk about CSG without referring to the significant adverse publicity our industry has received in relation to areas to the south of our activities in Queensland and in New South Wales. Significant misinformation is being spread about CSG and the industry as a whole has been somewhat slow in responding to and correcting the inaccurate information being propagated by activists. We and our operator, AGL Energy in our ATP 529P, have gone to considerable lengths to work with the property owners and the community in and around our permits. Through our efforts in this regard, our pilot testing and drilling activities have continued throughout this year.

Looking to the future growth of the Company we are finding it extremely difficult to identify and secure appropriate opportunities in the current volatile economic environment. Too few opportunities are being chased by well-funded companies. We have bid on oil and gas producing assets in Australia with little success; while we use realistic parameters in our valuations we have yet to identify the opportunity with significant additional synergistic benefits allowing us to be more aggressive in the bidding process.

It is becoming more and more likely that we will need to expand our search both geographically and in asset type if we are to progress our desire for growth.

Your Company is currently operating with a minimum sized Board, three directors, and management, three permanent staff. We will continue working as a team this way until growth opportunities are captured. It should be noted that upon the sale of our final coal assets late last calendar year we received the resignation of Campbell Smith, as a director. Campbell and his family have had a significant association with the Company and they continue to be our major shareholder. The Board would like to acknowledge Campbell's contribution to the Company as an executive, director and shareholder.

In conclusion I would like to thank our small group of staff and directors for their energetic competent support during the past year.

Yours sincerely,



Steven J Koroknay

## Management and operational report

### Introduction

Galilee Energy Limited (ASX: GLL) is an emerging, well-funded, Australian energy company with two coal seam gas (CSG) exploration tenements in the Galilee Basin in central Queensland. The tenements, ATP 529P and 799P, cover approximately 9,000 km<sup>2</sup>.

The company has experienced oil and gas board members and an efficient, qualified management team. Galilee is working closely with AGL Energy to demonstrate value in the mid-term Galilee Gas Project in ATP 529P and leverage this knowledge in the adjacent tenement ATP 799P.

A key objective of the company is to secure short-term cash-flow to underpin and build a hydrocarbon energy company, of sufficient scale and critical mass to attract and retain talented people. Our robust decision making process has identified a number of small, medium and large scale hydrocarbon based targets. However, in a highly competitive market, the premiums offered are beyond our level of risk tolerance. We will passionately continue to seek value adding growth opportunities that meet our appetite for risk.

We have a sound balance sheet and are capable of funding our transformational Galilee Gas Project while undertaking growth.

The following tells you about the financial position of your company and the activities that we have carried out in the last 12 months.

### Financial Results

The company's balance sheet was strengthened during the year with the sale of the NZ Coal Business to Bathurst Resources Limited.

The profit for the year was \$21.43 million.

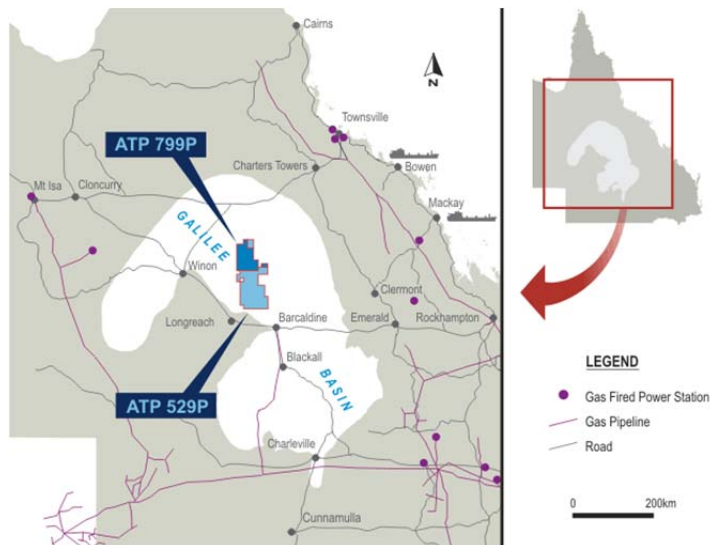
Cash at bank 30 June 2011 was \$40.3 million.

The company has no debt.

### Asset Base

The Galilee Basin has attracted increased interest from CSG explorers and producers. For example, over 20 exploration wells have recently been drilled with many more planned within the basin. This exploration has enabled Blue Energy and Comet Ridge to announce Contingent Resource estimates and supports our estimate that ATP 529P and ATP 799P may contain over 20 tcf<sup>1</sup> of gas in place; a

large-scale potential resource to meet a growing domestic demand for natural gas.



Location map of ATP 529P and ATP 799P

### ATP 529P

ATP 529P	
GLL interest	50%
Area	5,929 km <sup>2</sup>
Resource <sup>2</sup>	259 PJ 2C 1,090 PJ 3C
Operator	AGL Energy Limited

ATP 529P is held in a 50/50 joint venture with AGL Energy Limited (AGL), Australia's leading renewable energy company. AGL is the operator of the Galilee Gas Project. The Galilee Gas Project is exploring ATP 529P to evaluate the quantity and quality of coal seam gas in the Galilee Basin Betts Creek Beds.

Previous project activities include seismic surveys, core holes and construction of the Glenaras pilot; incorporating five production wells and a 300 ML holding pond. AGL have completed their \$37 million farm-in and bring considerable expertise, experience and gas marketing skills to the Project. AGL has for several years operated the Camden Gas Project in south western Sydney and also operates CSG assets in the Hunter Valley and in Gloucester, north of Newcastle.

In June 2011 the joint venture announced its first Contingent Resource estimate of 259 petajoules (PJ) of 2C and 1,090 PJ of 3C Resources (technically recoverable) from 450 km<sup>2</sup> of ATP 529P, centred on the Glenaras pilot.

The Glenaras pilot continues to operate with the first ever coal seam gas discovery declared in the Galilee Basin in October 2011.

<sup>1</sup> JR Holland & Associates.

<sup>2</sup> Technically recoverable Contingent Resource report provided by Dr Bruce McConachie, SRK Consulting.



Glenaras holding pond ATP 529P

The short-term focus of the joint venture is to:

- ❖ deliver a Reserves estimate in the current financial year;
- ❖ provide step out control to support a resource upgrade through the three new appraisal wells which have been drilled in 2011.

Looking forward, the joint venture will need to develop sufficient 2P Reserves to underpin commercialisation. This will likely require a number of new pilots integrated with our existing holding pond and infrastructure.

**ATP 799P**

ATP 799P	
GLL interest	100%
Area	3,097 km <sup>2</sup>
Operator	Galilee Energy Limited

ATP 799P is owned and operated by Galilee Energy.

Results from our initial exploration program have confirmed that the coal seams present in ATP 529P extend across the exploration area into ATP 799P. Analysis of data from two core holes has confirmed gas composition and gas content levels. The results are consistent with typical results reported across the Galilee Basin.

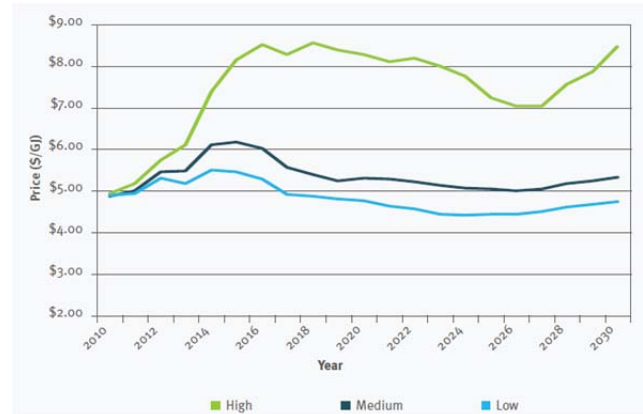
A \$6 million four-year work program was submitted in February 2010. Activities for 2011 will be based on the intellectual property gained from exploration and analysis conducted in ATP 529P and includes geological, geophysical and other engineering studies prior to further exploratory drilling in 2012.

**Commercialisation**

The Galilee Basin is at an early exploration stage of development. Exploration will continue for several years to clarify not just the scale of the resource, but also to understand the economics, the gas market demand and ensure development is environmentally sustainable.

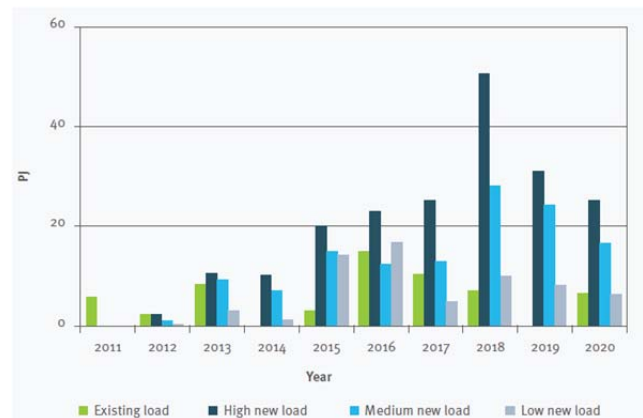
From a resource position we are confident, based on our exploration activities, that our tenements have the potential to support a large-scale gas development.

From an economic position the Gas Market Review Queensland (2011)<sup>3</sup> identifies a robust domestic gas price and a tight gas contracting environment between 2015 and 2020.



Forecast contract prices  
Source: Gas Market Review Queensland (2011)

The demand is driven by the need to replace expiring gas contracts and also meet new load demands such as the LNG industry and gas fired power generation to support the growing Queensland mining industry.



Annual new contract requirements  
Source: Gas Market Review Queensland (2011)

This puts your company in an enviable position. Our joint venture partner AGL has extensive exposure to the Australian gas market and has the experience and credibility to negotiate new large-scale commercialisation opportunities.

<sup>3</sup> The report, prepared annually by the Queensland Gas Commissioner, provides an analysis of the Queensland gas market in the context of the Eastern Australian gas market and liquefied natural gas (LNG) industry development.

## Community Engagement

The CSG industry has encountered strong public concerns<sup>4</sup> regarding:

- ❖ depletion of the Great Artesian Basin;
- ❖ fracking and ground water contamination;
- ❖ well integrity; and
- ❖ land access rights.

In addition, the local community is also concerned with industry impact on jobs, roads, weeds and accommodation.

The company is committed to an on-going dialogue with the community to share information. We regularly attend meetings with local shire and regional councils with a strong belief that this will reduce concerns and enable the region to balance economic growth with traditional values.

As an example of our commitment to the local community: AGL and GLL responded to an invitation from Desert Channels Queensland to sponsor a group initiative including the Australian Agricultural College Corporation, The Tropical Research Centre and local businesses to trial new technology against prickly acacia outbreaks. Since the cost of weed eradication is met mostly by landholders the opportunity to sponsor a weed misting unit provided an ideal opportunity for the energy sector to establish a more positive relationship with landowners and the local community.



Press launch of weed control trials

(Photograph courtesy of The Longreach Leader)

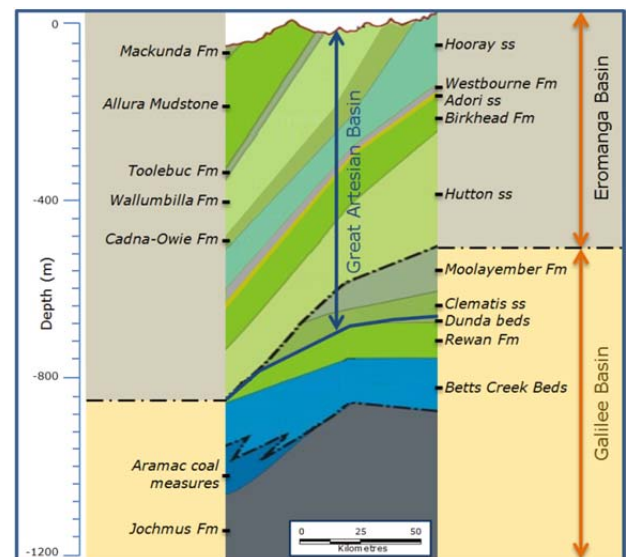
Left to right: Mark Kleinschmidt (Desert Channels), Simon Garnett (AGL) Glenn Haworth (Galilee Energy) and Bill Suffren (Suffren)

In addition, the Galilee Basin Operators' Forum, supported by Galilee Energy, has commissioned

RPS<sup>5</sup> to undertake a coordinated baseline water assessment of the Galilee Basin.

The scope includes:

- ❖ identify data currently readily available;
- ❖ provide a regional understanding of the aquifers and their use for bore water supplies;
- ❖ identify areas where information is lacking; and
- ❖ provide the groundwork for the future development of a hydrogeological model for the Galilee Basin.



Simplified subsurface schematic across ATP 529P  
(Adapted from RPS)

This baseline water assessment is nearing completion. Preliminary research has confirmed that the vast majority of water bores in the region extract water from the Great Artesian Basin (GAB) which includes the Hooray and Hutton sandstones. As shown above, the GAB lies above the Betts Creek Beds. Our CSG wells are designed and tested to ensure that the GAB remains isolated from the target coal seams found within the Betts Creek Beds.

The results of the baseline water assessment will be shared with the general public.

## Operations Focus

- ❖ Strong community relations;
- ❖ technology leadership;
- ❖ disciplined growth; and
- ❖ proactive engagement.

The following provides a brief comment on some of these issues.

<sup>4</sup> Government and industry information can be found at:  
[www.derm.qld.gov.au/environmental\\_management/coal\\_seam\\_gas](http://www.derm.qld.gov.au/environmental_management/coal_seam_gas)  
[www.appea.com.au/industry/csg](http://www.appea.com.au/industry/csg)  
[www.gbof.com.au](http://www.gbof.com.au)

<sup>5</sup> RPS is an international consultancy providing world-class, local solutions in energy and resources, infrastructure, environment and urban growth.

Australia is experiencing a resource boom and parts of the community have expressed strong concerns with CSG. Strategic Cropping Land, Wild River Declarations, Overlapping Tenure and Exploration Restricted Areas are examples of our dynamic regulatory environment. In addition, fears and myths regarding land access rights, water extraction from the Great Artesian Basin and the environmental impact of fracking surround the CSG industry.

The company has a long connection with remote central Queensland – a lightly populated, largely cattle and sheep grazing community. Our commitment is to engage with and support a more balanced CSG debate as expressed by the Chair of RAPAD (Remote Area Planning and Development Board)<sup>6</sup>. Along with the Galilee Basin Operators' Forum your company is engaged with local, regional and state stakeholders to add balance, provide facts and explain CSG technology. We are committed to developing these long-term relationships built on mutual respect and trust.

## Staff



Glenn Haworth became our Chief Executive Officer in September 2010 after serving with the company since 2009. He brings over 20 years of experience in the international oil and gas sector. With BP he acquired world-class training, oil and gas project experience and commercial accountability. Prior to September 2010, he focused on consulting to new business ventures, project management, engineering and coal seam gas technology.



On 23 December 2010 Simon Brodie was appointed to the role of Chief Financial Officer. Simon has over 20 years of experience in finance with a strong background in resources, having

worked as CFO and Company Secretary for several listed gold and base metals producers. He has a track record in growing listed juniors into production and has led several successful takeovers.

In May 2011, following completion of the sale of the NZ Coal Business, the position of Business Development & Corporate Relations Manager was made redundant and Sam Aarons left the company.

## Competent person's statement

The Contingent Resource estimates provided in this report were determined by Dr Bruce McConachie, Principal Consultant of SRK Consulting (Australasia) Pty Ltd (SRK) in accordance with the 2007 Petroleum Resource Management System (PRMS) guidelines. Dr McConachie is a full-time employee of SRK and consents to the use of the Contingent Resource figures and information in this announcement in the form and context in which it appears. Dr McConachie's qualifications and experience meet the requirements to act as a competent person to report petroleum Reserves under PRMS (2007) and value assets under the Valmin Code of the AusIMM.

Yours sincerely



Glenn Haworth  
 Chief Executive Officer

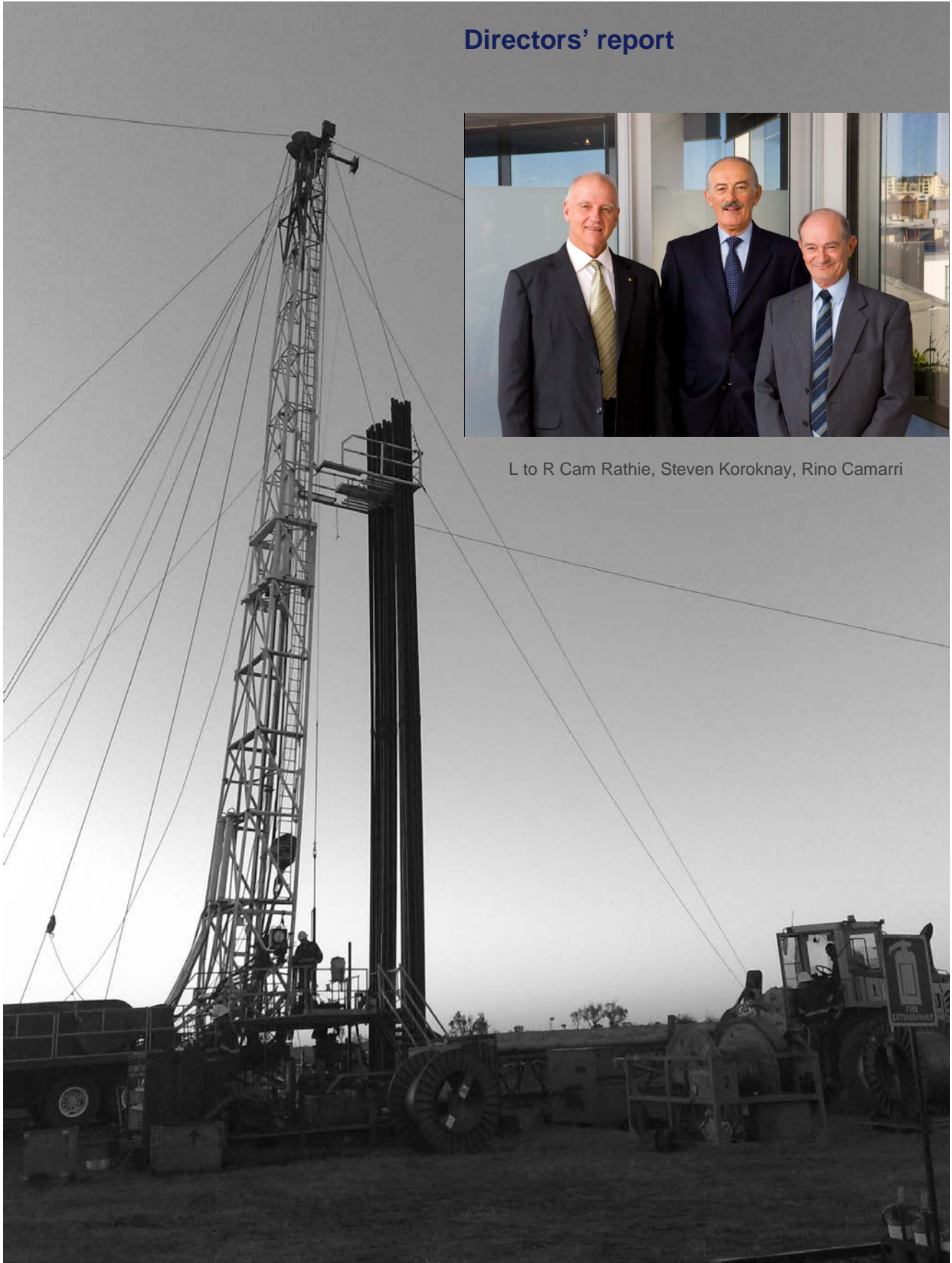
<sup>6</sup> Reference: Ed Warren, chairman of RAPAD and mayor of Winton Shire, The Longreach Leader, August 19, 2011.



## Directors' report



L to R Cam Rathie, Steven Koroknay, Rino Camarri



## Directors' report

In accordance with a resolution of the Board, the directors present their report on the consolidated entity ("Galilee" or "Company") consisting of Galilee Energy Limited and the entities it controlled at the end of or during the year ended 30 June 2011.

### Directors

The directors of Galilee in office during the year and up to the date of this report were:

**Steven J Koroknay**      **L Cam Rathie AM**  
Non-executive Chairman      Non-executive Director

**Rino Camarri**  
Non-executive Director

Campbell Smith, Non-executive Director, resigned 15/11/2010.

### Principal Activities

During the year the continuing activities of the consolidated entity were the exploration and development of coal seam methane (gas) in the Galilee Basin near Longreach in Queensland. The company discontinued the production of coal in New Zealand, following the sale of the business.

### Business strategies and prospects

Develop the Galilee Gas Project into a commercial gas field - the current program includes a reserves development campaign and a pilot step-out drilling program. Continue to pursue growth through hydrocarbon development opportunities.

### Financial position

Total comprehensive income for the year was \$21,890,241 (2010: \$1,667,600) and profit for the year was \$21,430,266 (2010: \$1,598,058). The change resulted from the sale of the NZ coal businesses in November 2010, completed March 2011.

The loss from continuing operations after tax for the year is \$4,433,521 (2010: loss of \$5,731,632): a decrease \$1.298 million. This was largely due to the completion of an exploration program in 2010 on ATP 799P.

The sale of the NZ coal business, for cash, precipitated a number of key changes to the company's financial position. Key changes include an increase in cash of \$28.853 million, working

capital increase of \$28.329 million and an increase in net assets of \$22.058 million.

### Dividends

No dividends were paid to members during the financial year. Since the end of the financial year the directors have not recommended the payment of any dividend.

### Review of operations

During the year the Company, through JV partner and operator AGL Energy, continued the management of the Glenaras Pilot at the Galilee Gas Project (ATP 529P 50%). On 30 June 2011 the Company issued the first resource estimation for 100% of the Galilee Gas Project: Contingent Resource of 259 PJ of 2C covering 450 km<sup>2</sup> of 5,929 km<sup>2</sup>.

### Significant changes in state of affairs

During 2010 the Company chose to focus on the exploration and development of hydrocarbons including coal seam gas and conventional oil and gas. Consistent with its hydrocarbon development strategy the company commenced a process to monetise its non-hydrocarbon assets.

After a strategic review of the New Zealand coal business, an Initial Public Offering (IPO) was identified as the best option to obtain value for Galilee from the sale of the New Zealand coal business – Eastern Resources Group (ERG). In October 2010 Galilee lodged its prospectus with ASIC and announced the terms of the Offer to the market. After lodging the prospectus, Bathurst Resources Limited (BTU) made an offer to acquire 100% of the shares of ERG for payments totalling A\$35 million. Since the BTU offer was superior to the IPO, Galilee signed a sale agreement in November 2010 and the sale was completed on 18 March 2011.

### Matters subsequent to the end of financial year

No matters or circumstances have arisen since the end of the financial year which significantly affected or could significantly affect the operations of the Company, the result of those operations or the state of affairs of the Company in future financial years.

## Environmental regulation

The Company's operations are governed by environmental regulations under the laws of the Commonwealth of Australia and of the State of Queensland. Operations are conducted in compliance with the *Queensland Petroleum Act* and the *Mineral Resources Act*. Environmental considerations are reviewed with and approved by the Queensland Department of Environment and Resource Management and Environmental Protection Authority. The Company has not reported any material breaches of any of its environmental licence conditions nor has it been notified of any material environmental breaches by any government agency during the year.

## Directors and officers insurance

The Company has agreed to indemnify the directors and secretaries of the Company and its subsidiaries against all liabilities to another person (other than the Company or a related body corporate) that may arise from their position as a director or officer of the Company, except where the liability arises out of conduct involving a lack of good faith. The agreement stipulates that the

Company will meet the full amount of any such liabilities, including costs and expenses.

During the financial year, the Company paid premiums for directors' and officers' liability insurance. The contract prohibits disclosure of the details of the nature of the liabilities covered or the premium paid.

The company has not indemnified its auditors, BDO Audit (Qld) Pty Ltd.

## Proceedings on behalf of the Company

No person has applied for leave of Court to bring proceedings on behalf of the Company or intervene in any proceedings to which the Company is a party for the purposes of taking responsibility of behalf of the Company for all or any part of those proceedings. The Company was not a party to any such proceedings during the year.

## Meetings of directors

The number of meetings of the company's Board of directors and of the audit committee during the year ended 30 June 2011, and the numbers of meetings attended by each director were:

Name	Meetings of Directors		Meetings of Audit committee	
	A	B	A	B
S Koroknay	18	18		
L Rathie	16	18	2	2
R Camarri	18	18	2	2
C Smith (resigned 15/11/2010)	6	6		

A = Number of meetings attended, B = Number of meetings eligible to attend

## Information on Directors

### Steven J Koroknay

*Chairman – Independent Non-executive*

Mr Koroknay has more than 30 years experience in the international oil and gas industry, initially with Esso Australia, where he became Technical Manager of their upstream activities in Australia, and later with Bridge Oil Limited where he rose to Executive Director - Resources. Mr Koroknay founded Anzon Energy and Anzon Australia, companies engaged in oil and gas development and production. Mr Koroknay was a non-executive director and chairman of CIM Resources, a coal mining company in the Gloucester Basin, New South Wales. He also consulted to Transfield in respect of their coal seam gas assets in Queensland.

Mr Koroknay has a bachelor's degree in Engineering (Civil Eng) from Sydney University and holds professional memberships bearing the following post-nominal: FAICD, FIEA.

#### Special responsibilities

Chairman

#### Interest in shares and options

125,000 shares in Galilee Energy Limited  
 2,000,000 options over ordinary shares in Galilee Energy Limited

### Lester Cam Rathie AM

*Independent Non-executive Director*

Mr Rathie has extensive experience in operational aspects of oil, gas and coal seam gas. He was previously in management roles with BHP Petroleum following a career in geological and well services. He was Managing Director of Upstream Petroleum and CEO of AGR Asia Pacific. Mr Rathie acted as Operations Manager for Sunshine Gas in its initial conventional gas and CSG exploration in the Surat and Bowen basins, providing the engineering and field teams for these projects. Mr Rathie was awarded the Order of Australia Medal in the Queen's Birthday Honours List 2010 for services to the oil and gas industry.

#### Special responsibilities

Member - audit committee

#### Interest in shares and options

100,000 shares in Galilee Energy Limited  
 2,000,000 options over ordinary shares in Galilee Energy Limited

### Rino Camarri

*Independent Non-executive Director*

Mr Camarri was previously Non-executive Chairman of Galilee Resources Limited. Mr Camarri has extensive experience in banking, funds management and general finance, with specialised banking experience concentrated on commercial business and property portfolio management. Mr Camarri is currently Financial Controller of Ekco Investments Pty Ltd.

#### Special responsibilities

Chairman – audit committee

#### Interest in shares and options

235,536 shares in Galilee Energy Limited

### Bill Lyne

*Company Secretary*

Mr Lyne is the principal of Australian Company Secretary Service, providing company secretarial, compliance and governance services to companies. He is secretary of a number of other public companies in Australia and overseas, including some involved in mining exploration and production.

Mr Lyne has a bachelor's degree in commerce (Econ) from the University of New South Wales and holds professional memberships bearing the following post-nominal: CA, FCIS, FAICD, FFIN.

#### Other directorships in listed companies - current

<i>Name</i>	<i>Company</i>	<i>Commenced</i>
Steven J Koroknay	Cue Energy Limited	09/10/09
Steven J Koroknay	Metgasco Limited	19/01/10

#### Other directorships in listed companies – past three years

<i>Name</i>	<i>Company</i>	<i>Period</i>
Steven J Koroknay	Innamincka Petroleum Limited	15/05/08 – 24/06/2011

## Remuneration Report (audited)

The remuneration report is set out under the following main headings:

- A Principles used to determine the nature and amount of remuneration
- B Details of remuneration
- C Service agreements
- D Share-based compensation

### A Principles used to determine the nature and amount of remuneration

The objective of the Company's executive reward framework is to ensure reward for performance is competitive and appropriate for the results delivered. The framework aligns executive reward with achievement of strategic objectives and the creation of value for shareholders, and conforms with market best practice for delivery of reward. The Board ensures that executive reward satisfies the following key criteria for good reward governance practices:

- ❖ competitiveness and reasonableness
- ❖ acceptability to shareholders
- ❖ performance linkage / alignment of executive compensation
- ❖ transparency
- ❖ capital management.

In consultation with external remuneration consultants when required, the Board determines the remuneration policies of the company, reviews the remuneration of senior management and determines the remuneration of executive directors. Non-executive director remuneration is considered by the Board within the overall limits approved by shareholders.

Alignment to shareholders' interests:

- ❖ has economic profit as a core component of plan design
- ❖ focuses on sustaining medium to long term growth in shareholder wealth and delivering a return on assets, as well as focusing the executive on key non-financial drivers of value
- ❖ designed to attract and retain high calibre executives.

Alignment to program participants' interests:

- ❖ rewards capability and experience
- ❖ reflects competitive reward for contribution to growth in shareholder wealth
- ❖ provides a clear structure for earning rewards
- ❖ provides recognition for contribution.

The framework provides a mix of fixed and variable pay, and long-term incentives.

### Non-executive directors

Fees and payments to non-executive directors reflect the demands that are made on, and the responsibilities of, the directors. Non-executive directors' fees and payments are reviewed annually by the Board to ensure fees are appropriate and in line with the market. At the company's Annual General Meeting (AGM) on 25/11/2008 it was resolved that qualifying non-executive directors be granted directors' share options as part of their remuneration package. Further options were approved for non-executive directors at the AGM of 27/11/2009. Details of the options are disclosed in the section providing information on directors.

### Directors' fees

The current base remuneration was last reviewed on 17th May 2010 with effect from 1 July 2010. The chairman's fees are determined independently to the fees of non-executive directors based on comparative roles in the external market. The chairman is not present at any discussions relating to the determination of his own remuneration.

### Executive pay

The executive pay and reward framework has two components:

- ❖ base pay, and
- ❖ superannuation and other non-monetary benefits.

The combination of these comprises the executive's total remuneration. The Company intends to revisit its long-term equity-linked performance incentives specifically for executives during the year ending 30 June 2012.

## A Principles used to determine the nature and amount of remuneration (continued)

### Base pay

Structured as a total employment cost package which may be delivered as a combination of cash and prescribed non-financial benefits at the executives' discretion.

Executives are offered a competitive base pay that comprises the fixed component of pay and rewards. Base pay for senior executives is reviewed annually to ensure the executive's pay is competitive with the market. An executive's pay is also reviewed on promotion.

There are no guaranteed base pay increases included in any senior executives' contracts.

### Superannuation and other non-monetary benefits

Included in the employment package for key management personnel is the statutory obligation for superannuation as required by the *Superannuation Guarantee Charge Act 1992*.

## Relationship between remuneration and company performance

Other than as described in D below (options) there is no direct link between the remuneration of the key management personnel and company performance. The Company is currently focused on the exploration stage across its projects. Consequently, opportunities for broad performance based incentives are limited.

Given that remuneration must be commercially reasonable to attract the right calibre of directors and executives, there can be no direct link between remuneration, company performance and shareholder wealth at the company's current stage of development. The company issues options to provide an incentive for directors and key management personnel to align their interests with the medium to long term interests of shareholders.

The table below sets out summary information about the Company's revenues, earnings, and movements in shareholders' wealth for the five years to 30 June 2011:

Item	Unit	2011	2010	2009	2008	2007
Revenue – continuing operations	\$'000s	1,022	265	20,570	6,157	4,223
Net profit/(loss) before tax - continuing operations	\$'000s	(4,571)	(8,379)	(1,909)	(5,421)	(3,476)
Net profit(loss) after tax	\$'000s	21,430	1,598	(2,447)	(4,313)	(2,952)
Basic earnings/(loss) per share	cents	14.1	1.5	(3.3)	1.5	(3.3)
Last traded share price	cents	19.0	17.5	29.5	26.6	26.0

There were no dividends paid or returns of capital by the Company in the five years

## B Details of remuneration

Details of the remuneration of the directors and the key management personnel (as defined in AASB 124 Related Party Disclosures) of Galilee Energy Limited and the Galilee Energy Group (Group) are set out in the following tables.

The key management personnel of Galilee Energy Limited and of the Group includes the directors of the company as listed above and Glenn Haworth, Chief Executive Officer and Simon Brodie, Chief Financial Officer.

Name	Short-term benefits		Termination payments	Post-employment benefits		Share-based Payments equity settled Options	Total	% paid as options
	Salary and fees	Non-cash benefits		Super-annuation	Retirement benefits			
	\$	\$	\$	\$	\$	\$	\$	%
<b>2011</b>								
<b>Non-executive directors</b>								
S J Koroknay	68,807	-	-	6,193	-	145,109	220,109	65.9%
R Camarri	50,000	-	-	-	-	-	50,000	-
L C Rathie	103,622	-	-	4,128	-	145,108	252,858	57.4%
C G Smith (resigned 13/11/10)	49,729	-	-	3,558	-	-	53,287	-
<b>Other key management personnel</b>								
G Haworth	356,491	-	-	15,200	-	-	371,691	-
S Brodie (appointed 17/1/11)	118,443	-	-	7,598	-	-	126,041	-
S Aarons (retrenched 31/5/11)	157,481	-	172,587	13,088	-	-	343,156	-
B Lyne	50,076	-	-	-	-	-	50,076	-
C J Pilcher *	135,939	-	-	1,399	-	-	137,338	-
J Marnane *	113,367	-	-	1,937	-	-	115,304	-
W.Parker **	66,950	-	-	-	-	-	66,950	-
<b>Totals</b>	<b>1,270,905</b>	<b>-</b>	<b>172,587</b>	<b>53,101</b>	<b>-</b>	<b>290,217</b>	<b>1,786,811</b>	

\* ceased on 18/3/2011 due to sale of subsidiary, Eastern Resources Group Ltd.

\*\* ceased as CFO on 17/1/2011

## B Details of remuneration (continued)

Name	Short-term benefits		Termination payments	Post-employment benefits		Share-based Payments equity settled Options	Total	% paid as options
	Salary and fees	Non-cash benefits		Super-annuation	Retirement benefits			
	\$	\$	\$	\$	\$	\$	\$	%
<b>2010</b>								
<b>Non-executive directors</b>								
<i>Parent company</i>								
S J Koroknay	41,284	-	-	3,716	-	99,166	144,166	68.8%
R J May (resigned 10/6/10)	32,700	-	-	-	-	75,500	108,200	69.8%
J S McIntyre (resigned 21/6/10)	27,523	-	-	2,477	-	75,500	105,500	71.6%
<i>Galilee Resources Ltd</i>								
R Camarri	30,000	-	-	-	-	-	30,000	-
K H McMahon (resigned 31/10/09)	10,000	-	-	-	-	-	10,000	-
S J Koroknay	50,043	-	-	4,127	-	-	54,170	-
<b>Sub-totals</b>	<b>191,550</b>	<b>-</b>	<b>-</b>	<b>10,320</b>	<b>-</b>	<b>250,166</b>	<b>452,036</b>	
<b>Executive directors</b>								
<i>Parent Company</i>								
C G Smith - <i>Managing Director</i>	201,843	-	-	18,166	-	-	220,009	-
<i>Galilee Resources Ltd</i>								
L C Rathie	187,875	-	-	-	-	99,167	287,042	34.5%
<i>Eastern Resources Group Ltd *</i>								
C J Pilcher (appointed 22/10/08)	182,131	-	-	-	-	-	182,131	-
J Marnane (appointed 8/12/09)	151,894	-	-	-	-	-	151,894	-
<b>Company Secretary</b>								
B Lyne	92,589	-	-	-	-	-	92,589	-
<b>Other key management personnel</b>								
S Aarons	150,154	10,783	-	13,516	-	-	174,453	-
G Haworth	345,725	-	-	-	-	-	345,725	-
W A Parker	78,450	-	-	-	-	-	78,450	-
<b>Totals</b>	<b>1,582,211</b>	<b>10,783</b>	<b>-</b>	<b>42,002</b>	<b>-</b>	<b>349,333</b>	<b>1,984,329</b>	

\* Eastern Resources Group Ltd was disposed of on 18/3/2011

## Options issued to directors

No options were issued to directors in 2011.

Grant Date	Grant number	Exercise Price	Expiry date	Vesting date	Number vested at 30 Jun 11	Value per option at grant date	Total value	% paid as options
		\$					\$	%
<b>Director</b>								
<b>2010</b>								
<b>S J Koroknay</b>								
27 Nov 09	1,000,000	\$0.80	3 Dec 12	3 Dec 10	1,000,000	\$0.1126	112,600	33.1%
27 Nov 09	1,000,000	\$0.87	3 Dec 12	3 Dec 11	-	\$0.1148	114,800	16.9%
<b>L C Rathie</b>								
27 Nov 09	1,000,000	\$0.80	3 Dec 12	3 Dec 10	1,000,000	\$0.1126	112,600	22.9%
27 Nov 09	1,000,000	\$0.87	3 Dec 12	3 Dec 11	-	\$0.1148	114,800	11.7%
<b>R J May *</b>								
25 Nov 08	1,000,000	\$0.30	4 Dec 11	4 Dec 09	1,000,000	\$0.084	84,000	32.3%
25 Nov 08	1,000,000	\$0.35	4 Dec 11	4 Dec 10	1,000,000	\$0.081	81,000	37.4%
<b>J S McIntyre *</b>								
25 Nov 08	1,000,000	\$0.30	4 Dec 11	4 Dec 09	1,000,000	\$0.084	84,000	33.2%
25 Nov 08	1,000,000	\$0.35	4 Dec 11	4 Dec 10	1,000,000	\$0.081	81,000	38.4%

There are no specific performance conditions to be met for the granting and vesting of options.

No amounts are paid or payable on the granting of options.

Number of options vested during the year: 2,000,000 (2010: 2,000,000).

Options exercisable at 30 June 2011: 6,000,000 (2010: 2,000,000).

R J May resigned from the Board on 10 June 2010 and J S McIntyre on 21 June 2010.

Options can be exercised at any time between vesting and expiry.

## Remuneration Report (audited) (continued)

### C Service agreements

Remuneration and other terms of employment for key management personnel are set out below.

#### Directors

Each of the directors are appointed on open-ended agreements commencing on the date of appointment. Key terms of the agreements are:

- ❖ Directors fees inclusive of superannuation are \$50,000 p.a. and \$75,000 p.a. for the Chairman
- ❖ Entitled to invoice the company for consultancy work outside the scope of director's duties.
- ❖ The required notice period on termination is one month by either party
- ❖ There are no termination benefits

#### Glenn Haworth, Chief Executive Officer

Term of agreement – three years commencing 1 September 2010

- ❖ Base salary of \$392,400 including superannuation
- ❖ Salary rate is reviewed annually in line with a performance review
- ❖ The required notice period on termination is three months by either party
- ❖ There are no termination benefits.

#### Simon Brodie, Chief Financial Officer

Term of agreement – open-ended agreement commencing 17 January 2011

- ❖ Base salary of \$275,000 including superannuation.
- ❖ Salary rate is reviewed annually in line with a performance review.
- ❖ The required notice period on termination is three months by either party
- ❖ The agreement provides for nine months payment for termination under certain conditions.

#### Bill Lyne, Company Secretary

Mr Lyne is the principal of Australian Company Secretary Service, providing company secretarial, compliance and governance services to companies. The company has an ongoing agreement with Australian Company Secretary

Service which charges on the basis of time and materials. There are no specific notice period for termination and no termination benefits are payable.

### D Share based compensation

#### Directors share options

No options were granted as remuneration during the year. The options granted in the period ended 30 June 2009 remained outstanding as at 30 June 2011. There were no options exercised, forfeited or lapsed during the year that were granted as remuneration in prior periods.

The Board's current policy does not allow directors and executives to limit their risk exposure in relation to equities or options without the approval of the Board.

#### End of Remuneration Report (Audited)



As at the date of this report, Galilee Energy Limited had the following options outstanding:

Number	Issue date	Expiry date	Exercise price
2,000,000	25/11/2008	4/12/2011	\$0.30
2,000,000	25/11/2008	4/12/2011	\$0.35
1,000,000	27/11/2009	4/12/2012	\$0.24
2,000,000	27/11/2009	4/12/2012	\$0.80
2,000,000	27/11/2009	4/12/2012	\$0.87

## Non-audit services

The Company may decide to employ the auditor on assignments additional to their statutory audit duties where the auditor's expertise and experience with the company and/or the Company are important.

Details of the amounts paid or payable to the auditor (BDO Audit (Qld) Pty Ltd) for audit and non-audit services provided during the year are set out below.

The Board of directors has considered the position and, in accordance with the advice received from the audit committee, is satisfied that the provision of the non-audit services is compatible with the general standard of independence for auditors imposed by the Corporations Act 2001.

The directors are satisfied that the provision of non-audit services by the auditor, as set out below, did not compromise the auditor independence requirements of the Corporations Act 2001 for the following reasons:

- ❖ all non-audit services have been reviewed by the audit committee to ensure they do not impact the impartiality and objectivity of the auditor
- ❖ none of the services undermine the general principles relating to auditor independence as set out in APES 110 Code of Ethics for Professional Accountants.

During the year the following fees were paid or payable for services provided by the auditor of the parent company, its related practices and non-related audit firms.

## Assurance services

### Audit services

Audit and review of financial reports and other audit work under the *Corporations Act 2001*.

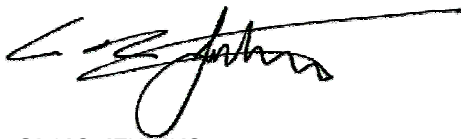
	2011	2010
	\$	\$
BDO Audit (Qld) Pty Ltd	118,639	122,099
Other assurance services	46,347	-
Taxation and advisory services BDO (Qld) Pty Ltd	22,365	18,160

**DECLARATION OF INDEPENDENCE CRAIG JENKINS TO THE DIRECTORS OF GALILEE ENERGY LIMITED**

As auditor of Galilee Energy Limited for the year ended 30 June 2011, I declare that, to the best of my knowledge and belief, there have been no contraventions of:

- the auditor independence requirements of the Corporations Act 2001 in relation to the audit; and
- any applicable code of professional conduct in relation to the audit.

This declaration is in respect of Galilee Energy Limited and the entities it controlled during the period.



**CRAIG JENKINS**

Director

**BDO Audit (QLD) Pty Ltd**

Brisbane, 1 September 2011

## Auditor's independence declaration

The auditor's independence declaration is included on Page 16 of the financial report for the year.

Signed in accordance with a resolution made pursuant to s298(2) of the *Corporations Act 2001*.

On behalf of the Directors



Steven J Koroknay  
Chairman

Brisbane  
1 September 2011

## Corporate Governance Statement

The main corporate governance practices of the Company are set out below.

The primary role of the Board is to ensure the long-term health and prosperity of the Company, which it aims to accomplish by:

- ❖ Approving objectives, goals and strategic direction set by management with a view to maximising shareholder value;
- ❖ Adopting an annual budget and monitoring financial performance;
- ❖ Ensuring adequate internal controls exist and are appropriately monitored for compliance;
- ❖ Identifying and appropriately managing significant business risks;
- ❖ Having a Board that comprises Directors with an appropriate level of expertise, experience and skill, so as to ensure that commercial opportunities are taken advantage of and risks managed; and
- ❖ Setting the highest of business standards and codes of ethical behaviour.

### (a) Board of Directors

#### (i) Responsibilities

The Board is responsible for the Company's corporate governance and approves the business strategy of the Company. It authorises all major transactions and reviews operational and financial performance. The Chief Executive Officer (CEO) conducts the day-to-day affairs of the Company and is accountable to the Board.

#### (ii) Composition

The Board currently comprises 3 members, all being non-executive Directors (one of whom is the Chairman) and all are considered to be independent. Details of each Director's background appear in the Company's Annual Report.

#### (iii) Nomination and Election of Directors

The Board can at any time appoint any suitably qualified and experienced person to be a Director. That person holds office until the next Annual General Meeting and is then eligible for election at that meeting. One third of the non-executive Directors retire by rotation at each Annual General Meeting and are eligible for re-election.

#### (iv) Meetings

Board meetings are held at the Company's principal administrative office, usually on a monthly basis. The number of meetings and attendances by Directors during the financial year are detailed in the Directors' Report.

#### (v) Independent Advice

Directors have access to the advice of independent external experts at the expense of the Company, should they consider it necessary. Any advice that is obtained is also made available to the members of the Board.

### (b) Directors' indemnity

Under the Company's Constitution and pursuant to respective Deeds of Indemnity, each Director of the Company (and its subsidiaries) is indemnified to the extent permitted by law against:

- ❖ Liability to third parties arising out of conduct undertaken in good faith in his capacity as a Director; and
- ❖ The costs and expenses of defending legal proceedings arising out of conduct undertaken in his capacity as a current or former Director, unless the defence is unsuccessful.



**(b) Directors' indemnity (continued)**

The Company also has in place a Directors and Officers Liability Insurance Policy, for which the Company pays the premium, insuring the Directors against certain liabilities they may incur in carrying out their duties and responsibilities for the Company.

**(c) Contracts with Directors**

The Company's Constitution provides that a Director may enter into an arrangement with the Company and Directors or their firms may act in a professional capacity for the Company. However, these arrangements are subject to the restrictions and disclosures in the *Corporations Act* applicable to public companies and common law Directors' duties.

During the course of last year, no Director has received or become entitled to receive a benefit because of a contract between the Company and the Director, or a firm of which the Director is a member, other than as disclosed in the Remuneration Report.

**(d) Ethical standards**

The Company is committed to high ethical standards in its operations and in its dealings with shareholders and other stakeholders. All Directors are required to adhere to a Code of Conduct and they are governed by a Securities Trading Policy which restricts them and key management personnel from dealing in Company securities during closed periods and when they are in possession of price sensitive information, but otherwise allows share dealings, particularly during specified trading window periods after the release of first and third quarter reports and half and full year results.

**(e) Shareholder communication**

The Board ensures that shareholders are provided with adequate information regarding the performance of the Company and any price sensitive information in a timely manner. The Company's policy is to lodge with the ASX and place on its web-site market sensitive information, including annual and half yearly results announcements and any relevant analyst presentations, as soon as practicably possible. The Company's web-site [www.galilee-energy.com.au](http://www.galilee-energy.com.au) contains recent announcements, shareholders' circulars and relevant financial data as well as the Company's Corporate Governance Statement, its Charters and Policies, and related documents.

**(f) Directors' remuneration**

Non-executive Directors are remunerated for the value of their work and commitment to the Company as it strives to maximise the worth of its assets. The level of total annual remuneration which may be paid to non-executive Directors of the Company and its subsidiaries (as last approved by shareholders in November 2009) is \$600,000 and is allocated among the non-executive Directors as they decide – current standard fees payable aggregate only \$175,000 per annum.

Subject to shareholder approval, non-executive Directors may also be granted options over the Company's shares as a reward and incentive for services they provide to assist in furthering the Company's progress, future growth and success.





### (g) Board committees

Only one committee (an Audit Committee) is currently in place as the Board considers it unnecessary to have any others given there are only 3 Directors and the Company is relatively small.

The Audit Committee currently comprises only 2 members – the independent non-executive Directors Rino Camarri (chairman) and Cam Rathie – as it is considered inappropriate for the third Director to be on this Committee given he is Chairman of the Company. The CEO (Glenn Haworth) is invited to attend meetings should he have questions or wish to acquire information. Audit matters are considered at meetings of the Committee. In addition to statutory reporting issues, the Audit Committee also considers business risks and the adequacy of the Company's control procedures, as well as monitoring compliance with corporate governance matters. The Company's external auditors attend relevant meetings as does the Chief Financial Officer (CFO).

The Audit Committee is established under a Charter which governs its operations.

### (h) ASX Corporate Governance Guidelines

The Company is committed to complying, to the fullest extent reasonably possible, with the ASX Corporate Governance Council's Principles and Recommendations ("the ASX Guidelines"). Before referring to the specific principles set out in the ASX Guidelines and the extent to which the Company complies with the recommendations, the following observations are made:

- ❖ The Company has a relatively small market capitalisation and (as a hydrocarbon exploration entity) limited sources of ongoing income. As a consequence, the available cash reserves of the Company (and its controlled entities) are intended to be applied so as to maximise shareholder value.
- ❖ Again, because of limited available financial resources, the Company (apart from its Directors and Company Secretary) has relatively few executives. Rather than the task of rigorously adhering to the ASX Guidelines (which are still acknowledged as being important), the principal focus of the Company is to maximise the technical skill and expertise of its Directors and employees, so as to enhance the value of the Company's assets.
- ❖ The non-executive Directors dedicate reasonable time and effort to the affairs of the Company. They do so within busy schedules for other work and business commitments and, as a consequence, the principal focus of their endeavours (while operating within a sound base for corporate governance) must necessarily be promotion of the Company's activities and improving shareholder value.

It is within the above context that the Directors believe they have established the most appropriate processes to ensure compliance wherever reasonably possible with the ASX Guidelines, as outlined below. Whilst these processes have generally been in place throughout the reporting period some of them have recently been overhauled and/or re-drafted.





### ***Principle One – Lay solid foundations for management and oversight***

Functions reserved to the Board and Directors' responsibilities are set out in this Statement and in a separate Board Charter which is supported by detailed Board Protocols. Directors are provided with a letter on appointment which details the terms and conditions of their appointment, provides clear guidance on what input is required by them, and includes materials to assist with induction into the Company.

The Company has a CEO, Glenn Haworth, as well as a small group of experienced senior management personnel. Each of these persons has entered into arrangements with the Company (and/or its controlled entities) making provision for the conduct of the individual's responsibilities in respect of the day-to-day activities of the Company. The authorities granted to senior executives are delegated by the Board. The Board meets at regular intervals, or as necessary, and executive management personnel communicate with Board members between Board meetings both to inform them and/or seek their counsel as appropriate.

Performance evaluation of executives is conducted by the Board in consultation with the CEO and has taken place during the last financial year in accordance with the processes described in the Remuneration Report section of the Directors' Report.

### ***Principle Two – Structure the Board to Add Value***

The Board is comprised of 3 non-executive Directors who are all considered to be independent. The Board's view is that an independent director is a non-executive Director who does not have a relationship affecting independence on the basis set out in the

ASX Guidelines and meets materiality thresholds agreed by the Board as equating to payments to them or related parties of 5% of the Company's annual revenue or representing 20% of the individual's business revenue.

The Board is currently structured in such a way that all of the Board members have had many years experience in the energy industry in varying roles, details of which are shown in the Company's Annual Report. Accordingly, the blend of experience and skills assembled at the Board is considered appropriate for the Company at this stage of its commercial existence.

The Board has not formed a separate nomination committee, which it finds unnecessary at this stage of the Company's evolution, favouring a 'whole-of-board' approach to the selection of replacement or additional Directors.

The Board operates an on-going self-assessment and evaluation process which includes from time-to-time the assessment of Director competencies and suitability to the Company as it evolves over time. The Board's principal benchmarks are the Company's operational and financial performance compared to similar organisations.

Similarly, evaluation of committee composition and member performance is conducted from time-to-time.

The Company Secretary, Bill Lyne, plays an integral role in monitoring the conduct of activities of the Board and any committee, as well as the despatch of material to Board members; he is responsible for overseeing adherence to Board policies and procedures and is accountable on governance matters.





### ***Principle Three – Promote Ethical and Responsible Decision-Making***

The Company has established a formal Code of Conduct which governs Directors and employees. Specific features of the Code include:

- ❖ Compliance with applicable laws, rules and regulations;
- ❖ Dealings with customers, employees and other stakeholders;
- ❖ Protection of Company property and assets;
- ❖ Restrictions on Directors' dealings with Company shares;
- ❖ Requirements in terms of disclosure of information to the ASX and the Company's continuous disclosure obligations generally;
- ❖ Protocol for accepting gifts and the like;
- ❖ Guidelines for reporting unethical practices.

In addition, the Company's executive team continues to work hard to establish and maintain good relationships with key stakeholders involved with the projects in which the Company has an interest. As a potential producer of gas, the Board recognises a strong need to maintain good relations with government departments, local authorities, landowners, indigenous peoples, potential joint venture partners and the like.

The Board has recently approved a Diversity Policy in compliance with the ASX Guidelines but is cognisant of the constraints of a hydrocarbon exploration company, particularly in relation to gender diversity in the workplace.

This Policy outlines the need for the Board to establish measurable objectives for achieving gender diversity over the longer term. However, at this stage there has been no progress in this regard because the Company currently has very

few full-time employees – although one is a female – nor have any suitable female Board members been identified.

### ***Principle Four – Safeguard Integrity in Financial Reporting***

The CFO oversees the Company's financial resources, records and reporting.

The Board requires the persons performing the roles of CEO and CFO to declare in writing to the Board at the time of approving and signing the annual and half-yearly accounts that, in their opinion, the Company's financial reports present a true and fair view, in all material respects, of the Company's financial condition and operational results and are in accordance with relevant accounting standards, as required by Section 295A of the *Corporations Act*. Both these officers also report to the Board at its regular meetings.

Additionally, (as identified above) an Audit Committee has been established that works in conjunction with the Company's external auditors to ensure the presented accounts are in accordance with accounting principles. In terms of the ASX Guidelines the Committee's chairman, Rino Camarri, is an independent non-executive Director who has a strong commercial finance and accounting background which makes him an appropriate person for this role.

### ***Principle Five – Make Timely and Balanced Disclosure***

The Company is committed to the promotion of investor confidence by ensuring that it meet its ASX reporting obligations and that trading in the Company's securities takes place in an informed market.







### ***Principle Five – Make Timely and Balanced Disclosure (continued)***

In addition, there is an internal protocol that has been established involving the CEO (Glenn Haworth), the CFO (Simon Brodie) and the Company Secretary (Bill Lyne) to arrange for the timely preparation and release of all announcements to the ASX.

In addition, all changes in Directors' interests in the Company's securities are promptly reported to the ASX in compliance with Section 205G of the Corporations Act and the ASX Listing Rules.

Given the relatively small size of the Company's senior executive team the Board has decided that, for the time being, it is not necessary to put in place any further formal policies to assist in compliance with ASX disclosure requirements.

### ***Principle Six – Respect the Rights of Shareholders***

The Company has not yet established a formal communications policy. Rather, it does have an informative web-site as the basis for maintaining close contact with shareholders and it is regularly updating the site, in recognition that these days the Company's web-site is one of the main avenues for keeping shareholders and market participants aware of the Company's activities.

In addition, the Company has implemented other strategies so as to provide shareholders with an opportunity to access reports and other releases by way of email, subject to the *Privacy Act* requirements. The Company's CFO is a full-time employee with the principal responsibility for shareholder liaison.

Shareholders are also encouraged to participate in Annual (and other) General Meetings to ensure a high level of

accountability and identification with the Company's strategies and goals.

A copy of the AGM Notice is sent to the Company's external auditor as required by law. As also required by law, the auditor's representative attends the AGM and is available to answer questions from shareholders about the conduct of the audit and the preparation and content of the auditor's report.

### ***Principle Seven – Recognise and Manage Risk***

Given the Company's involvement in exploration for hydrocarbons, the Board is cognisant of the risks that can potentially impact on its people and its business operations and the need for active risk management and mitigation. To this end, the Audit Committee has (as part of its Charter) overall responsibility for ensuring that necessary controls are in place to manage risk.

The Company's executive team has operational responsibility for the implementation of risk management and has put in place appropriate policies, including workplace health, safety and the environment (HS&E), specifically covering its exploration activities in the Galilee basin.

HS&E/risk management is a standing Board agenda item, and relevant matters are discussed regularly by the Board. Also, within the last 12 months a formal report as to the effectiveness of the management of the Company's material business risks has been presented to the Board, and such matters are kept under close consideration.

Also, the Board does require the persons performing the roles of CEO and CFO to state in writing to the Board that the declarations provided in accordance with Section 295A of the *Corporations Act* at the time of approving and signing off the annual financial statements are, in their opinion, founded on sound systems of





***Principle Seven – Recognise and Manage Risk (continued)***

risk management and internal compliance and control and such systems are operating efficiently and effectively in all material respects in relation to financial reporting risks.

***Principle Eight – Remunerate Fairly and Responsibly***

No separate remuneration committee has been formed as the Directors consider it appropriate, given the relatively small size of the Company, for such matters to be determined at Board level.

The Board considers that the Directors are sufficiently qualified to consider and decide on matters covering recruitment and remuneration of senior executives, superannuation arrangements, Directors' remuneration and retirement benefits. However, external professional advice may be sought from experienced consultants where appropriate to assist in the Board's deliberations.

The Board maintains a view that a remuneration policy exists which provides the requisite degree of incentive so as to not only attract but to maintain suitably qualified personnel. In addition, the Company has a shareholder approved Employee Share Option Plan in place to allow options to be issued to deserving staff as a reward for performance. Also, the Board's policies prohibit transactions by executives which might limit the economic risk of participating in unvested entitlements under any equity-based remuneration scheme.

The Board takes the view that the Company's future success lies in the quality of its team. As a result, a highly-competent and experienced management team has been assembled, but in order to keep that team together adequate financial rewards must be provided. Full details of the remuneration of Directors and key management personnel is contained in the Remuneration Report section of the Directors' Report.

There is no retirement benefit scheme for any Directors, including non-executive Directors, other than the payment of statutory superannuation.





## Financial report

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**Consolidated Statement of Comprehensive Income**  
 for the year ended 30 June 2011

	Note	2011 \$	2010 \$
<b>Continuing operations</b>			
<b>Revenue</b>	2	<b>1,022,023</b>	265,424
<b>Exploration and evaluation expenses</b>			
Proportionate share of exploration and evaluation expenditure in joint venture	1(h)	<b>(1,697,464)</b>	-
Consulting fees		<b>(65,858)</b>	(1,161,683)
Contractors		<b>(12,278)</b>	(4,085,649)
Depreciation		<b>(20,542)</b>	(43,914)
Other		<b>(468,037)</b>	(257,830)
	3	<b>(2,264,179)</b>	(5,549,076)
<b>Administration expenses</b>			
Employee benefits expense		<b>(1,007,750)</b>	(491,892)
Directors' remuneration		<b>(491,161)</b>	(729,078)
Consulting fees		<b>(324,579)</b>	(701,738)
Depreciation		<b>(33,171)</b>	(25,500)
Finance costs		<b>(10,551)</b>	(289,554)
General administration expenses		<b>(1,461,590)</b>	(857,958)
	3	<b>(3,328,802)</b>	(3,095,720)
<b>Profit/(loss) before income tax</b>		<b>(4,570,958)</b>	(8,379,372)
Income tax benefit/(expense)	6	<b>137,437</b>	2,647,740
<b>Profit/(loss) from continuing operations after tax</b>		<b>(4,433,521)</b>	(5,731,632)
<b>Discontinued operations</b>	4		
Profit from discontinued operations after tax		<b>25,863,787</b>	7,329,690
<b>Profit/(loss) for the year</b>		<b>21,430,266</b>	1,598,058
<b>Other comprehensive income, net of tax</b>			
Currency translation differences	5	<b>459,975</b>	69,542
<b>Total comprehensive income for the year</b>		<b>21,890,241</b>	1,667,600
		<b>Cents</b>	Cents
<b>Earnings/(loss) per share from continuing operations</b>			
Basic earnings per share	9	<b>(2.9)</b>	(5.4)
Diluted earnings per share	9	<b>(2.9)</b>	(5.4)
<b>Earnings per share from discontinued operations</b>			
Basic earnings per share	9	<b>17.0</b>	6.9
Diluted earnings per share	9	<b>17.0</b>	6.9
<b>Earnings/(loss) per share for profit/(loss) for the year</b>			
Basic earnings per share	9	<b>14.1</b>	1.5
Diluted earnings per share	9	<b>14.1</b>	1.5

*The accompanying notes form part of these financial statements.*

**Consolidated Statement of Financial Position**  
 As at 30 June 2011

	Note	2011 \$	2010 \$
<b>ASSETS</b>			
<b>Current assets</b>			
Cash and cash equivalents	10	40,287,838	11,435,340
Trade and other receivables	11	1,106,318	2,048,633
Inventories	12	-	1,210,946
Other assets	13	-	913,591
		<hr/>	<hr/>
		41,394,156	15,608,510
Assets classified as held for sale	14	-	-
		<hr/>	<hr/>
Total current assets		41,394,156	15,608,510
<b>Non-current assets</b>			
Trade and other receivables	11	640,942	839,751
Property, plant and equipment	17	151,795	6,921,901
Intangible assets	18	-	2,660,637
		<hr/>	<hr/>
Total non-current assets		792,737	10,422,289
		<hr/>	<hr/>
<b>Total assets</b>		42,186,893	26,030,799
<b>LIABILITIES</b>			
<b>Current liabilities</b>			
Trade and other payables	19	714,528	2,137,783
Financial liabilities	20	-	1,121,518
		<hr/>	<hr/>
Total current liabilities		714,528	3,259,301
<b>Non-current liabilities</b>			
Financial liabilities	20	-	2,659,926
Provisions	21	372,132	668,007
Deferred tax liabilities	6	-	402,060
		<hr/>	<hr/>
Total non-current liabilities		372,132	3,729,993
		<hr/>	<hr/>
<b>Total liabilities</b>		1,086,660	6,989,294
		<hr/>	<hr/>
<b>Net assets</b>		41,100,233	19,041,505
<b>EQUITY</b>			
Issued capital	22	60,227,574	60,349,304
Reserves	33	(6,747,265)	(7,497,457)
Accumulated losses		(12,380,076)	(33,810,342)
		<hr/>	<hr/>
<b>Total equity</b>		41,100,233	19,041,505
		<hr/>	<hr/>

*The accompanying notes form part of these financial statements.*

**Consolidated Statement of Changes in Equity**  
 for the year ended 30 June 2011

	Issued Capital	Accumulated Losses	Foreign currency translation reserve	Non-controlling interest elimination reserve	Share-based payments reserve	Non-controlling interests	Total
	\$	\$	\$	\$	\$	\$	\$
<b>Balance at 1 July 2010</b>	<b>60,349,304</b>	<b>(33,810,342)</b>	<b>(459,975)</b>	<b>(7,656,400)</b>	<b>618,918</b>	-	<b>19,041,505</b>
Profit for the year	-	21,430,266	-	-	-	-	21,430,266
Other comprehensive income	-	-	459,975	-	-	-	459,975
Total comprehensive income	-	21,430,266	459,975	-	-	-	21,890,241
Shares issued during the year	-	-	-	-	-	-	-
Transaction costs (net of tax)	(121,730)	-	-	-	-	-	(121,730)
Share-based payments expense for the year	-	-	-	-	290,217	-	290,217
<b>Balance at 30 June 2011</b>	<b>60,227,574</b>	<b>(12,380,076)</b>	-	<b>(7,656,400)</b>	<b>909,135</b>	-	<b>41,100,233</b>
<b>Balance at 1 July 2009</b>	42,611,658	(36,012,141)	(529,517)	4,051,348	197,885	(1,511,865)	8,807,368
Profit for the year	-	1,598,058	-	-	-	-	1,598,058
Other comprehensive income	-	-	69,542	-	-	-	69,542
Total comprehensive income	-	1,598,058	69,542	-	-	-	1,667,600
Shares issued during the year *	7,332,124	-	-	-	-	-	7,332,124
Transaction costs (net of tax)	(626,612)	-	-	-	-	-	(626,612)
Share-based payments expense for the year	-	-	-	-	421,033	-	421,033
Gain on change in proportionate interest	-	603,741	-	1,440,029	-	(603,778)	1,439,992
Acquisition of non-controlling interests	11,032,134	-	-	(13,147,777)	-	2,115,643	-
<b>Balance at 30 June 2010</b>	<b>60,349,304</b>	<b>(33,810,342)</b>	<b>(459,975)</b>	<b>(7,656,400)</b>	<b>618,918</b>	-	<b>19,041,505</b>

\* Excluding shares issued on acquisition of non-controlling interests

The accompanying notes form part of these financial statements.

**Consolidated Statement of Cash Flows**  
 for the year ended 30 June 2011

	Note	2011 \$	2010 \$
<b>Cash flows from operating activities</b>			
Receipts from customers (including GST)		<b>16,872,640</b>	25,159,507
Payments to suppliers and employees (including GST)		<b>(16,593,835)</b>	(28,688,248)
Payments for preparation of prospectus		<b>(2,825,818)</b>	-
Other revenue		<b>374,610</b>	46,955
Interest received		<b>774,373</b>	231,988
Interest paid		<b>(410,800)</b>	(382,317)
<b>Net cash outflow from operating activities</b>	28	<b>(1,808,830)</b>	(3,632,115)
<b>Cash flows from investing activities</b>			
Net cash inflow from sale of subsidiary company, net of costs	4	<b>31,981,760</b>	-
Payments for property, plant and equipment		<b>(651,166)</b>	(421,055)
Payments for intangibles		-	(71,331)
Proceeds from disposal of property, plant and equipment	17	<b>766,192</b>	154,136
Refunds of/(Payments for) bonds and deposits		-	(626,248)
Proceeds from disposal of asset classified as held for sale	4	-	8,361,378
<b>Net cash (outflow) inflow from investing activities</b>		<b>32,096,786</b>	7,396,880
<b>Cash flows from financing activities</b>			
Proceeds from issue of shares by parent company		-	4,541,396
Proceeds from non-controlling interests on issue of shares		-	1,439,989
Share issue expenses		-	(554,912)
Repayments of borrowings		<b>(1,418,186)</b>	(2,248,696)
<b>Net cash (outflow) inflow from financing activities</b>		<b>(1,418,186)</b>	3,177,777
<b>Net increase (decrease) in cash and cash equivalents</b>	The net	<b>28,869,770</b>	6,942,542
Cash and cash equivalents at the beginning of the financial year		<b>11,435,340</b>	4,355,943
Effects of exchange rate changes on cash and cash equivalents		<b>(17,272)</b>	136,855
<b>Cash and cash equivalents at the end of the financial year</b>	10	<b>40,287,838</b>	11,435,340
Non-cash investing and financing activities	29		

*The accompanying notes form part of these financial statements.*

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## 1 Summary of significant accounting policies

The principal accounting policies adopted in the preparation of the financial report are set out below. These policies have been consistently applied to all the years presented, unless otherwise stated. The financial report comprises the consolidated financial statements for Galilee Energy Limited and its subsidiaries. The financial report is presented in Australian dollars.

Galilee Energy Limited is a company limited by shares, incorporated and domiciled in Australia. Its registered office and principal place of business is:

Galilee Energy Limited  
ABN 11 064 957 419  
Level 2, 895 Ann St  
Fortitude Valley QLD 4006.

A description of the nature of the consolidated entity's operations and its principal activities is included in the directors' report, which is not part of this financial report.

The financial report was authorised for issue by the directors on 1 September 2011. The Company has the power to amend and reissue the financial report.

Through the use of the internet, we have ensured that our corporate reporting is timely, complete, and available globally at minimum cost to the company. All press releases, financial reports and other information are available on our website: [www.galilee-energy.com.au](http://www.galilee-energy.com.au).

### (a) Basis of preparation

This general purpose financial report has been prepared in accordance with Australian Accounting Standards (including Australian Accounting Interpretations) of the Australian Accounting Standards Board ("AASB") and the *Corporations Act 2001*.

#### (i) Compliance with IFRS

Australian Accounting Standards set out accounting policies that the AASB has concluded would result in a financial report containing relevant and reliable information about transactions, events and conditions. Compliance with Australian Accounting Standards ensures that the financial report of Galilee Energy Limited complies with International Financial Reporting Standards ("IFRS").

#### (ii) Historical cost convention

These financial statements have been prepared on an accruals basis and have been based on historical cost, modified where applicable by the revaluation of available-for-sale financial assets, financial assets (including derivative instruments) at fair value through profit or loss, and certain classes of property, plant and equipment.

#### (iii) Critical accounting estimates and judgements

The preparation of financial statements in conformity with Australian Accounting Standards requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the Group's accounting policies. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the financial statements, are disclosed in Note 1(x).

### (b) Principles of consolidation

#### (i) Subsidiaries

Subsidiaries are all those entities (including special purpose entities) over which the Group has the power to govern the financial and operating policies, generally accompanying a shareholding of more than one-half of the voting rights. A list of controlled entities is contained in Note 16 to the Financial Statements.

The consolidated financial statements incorporate the assets and liabilities of all subsidiaries of Galilee Energy Limited ("company" or "parent company") as at 30 June 2011 and the results of all subsidiaries for the year then ended. Galilee Energy Limited and its subsidiaries together are referred to in this financial report as the Group or the consolidated entity.

Subsidiaries are fully consolidated from the date on which control is transferred to the Group. They are de-consolidated from the date that control ceases.

**(b) Principles of consolidation (continued)***(i) Subsidiaries (continued)*

Intercompany transactions, balances and unrealised gains on transactions between Group companies are eliminated. Unrealised losses are also eliminated unless the transaction provides evidence of the impairment of the asset transferred. Accounting policies of subsidiaries have been changed where necessary to ensure consistency with the policies adopted by the Group.

Non-controlling interests, being the equity in a subsidiary not attributable, directly or indirectly, to a parent, are shown separately within the Equity section of the consolidated Statement of Financial Position and Statement of Comprehensive Income. The non-controlling interests in the net assets comprise their interests at the date of the original business combination and their share of changes in equity since that date.

Investments in subsidiaries are accounted for at cost in the individual financial statements of Galilee Energy Limited.

*(ii) Joint ventures – jointly controlled assets*

The proportionate interests in the assets, liabilities and expenses of a joint venture activity have been incorporated in the financial statements under the appropriate headings. Details of the joint venture are set out in note 15.

**(c) Foreign currency translation***(i) Functional and presentation currency*

Items included in the financial statements of each of the Group's entities are measured using the currency of the primary economic environment in which the entity operates ('the functional currency'). Unless otherwise stated, the consolidated financial statements are presented in Australian dollars, which is Galilee Energy Limited's functional and presentation currency.

*(ii) Transactions and balances*

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in the statement of comprehensive income, except when deferred in equity as qualifying cash flow hedges and qualifying net investment hedges or are attributable to part of the net investment in a foreign operation.

*(iii) Group companies*

The results and financial position of all the Group entities (none of which has the currency of a hyperinflationary economy) that have a functional currency different from the presentation currency are translated into the presentation currency as follows:

- assets and liabilities for the statement of financial position presented are translated at the closing rate at the date of that statement of financial position;
- income and expenses for the statement of comprehensive income are translated at average exchange rates (unless this is not a reasonable approximation of the cumulative effect of the rates prevailing on the transaction dates, in which case income and expenses are translated at the dates of the transactions); and
- all resulting exchange differences are recognised in other comprehensive income.

On consolidation, exchange differences arising from the translation of any net investment in foreign entities, and of borrowings and other financial instruments designated as hedges of such investments, are taken to shareholders' equity. When a foreign operation is sold or any borrowings forming part of the net investment are repaid, a proportionate share of such exchange differences is reclassified to profit or loss, as part of the gain or loss on sale where applicable.

Goodwill and fair value adjustments arising on the acquisition of a foreign entity are treated as assets and liabilities of the foreign entities and translated at the closing rate.

**(d) Revenue recognition**

Revenue is measured at the fair value of the consideration received or receivable. Amounts disclosed as revenue are net of returns, trade allowances and amounts collected on behalf of third parties. Revenue is recognised for the major business activities as follows:

**(i) Sale of goods**

A sale is recorded when goods have been delivered to the customer, the customer has accepted the goods and collectibility of the related receivables is probable.

**(ii) Interest income**

Interest income is recognised on a time proportion basis using the effective interest method. When a receivable is impaired, the Group reduces the carrying amount to its recoverable amount, being the estimated future cash flow discounted at the original effective interest rate of the instrument, and continues unwinding the discount as interest income. Interest income on impaired loans is recognised using the original effective interest rate.

**(iii) Dividends**

Dividends are recognised as revenue when the right to receive payment is established.

**(e) Income tax**

The income tax expense or revenue for the period is the tax payable on the current period's taxable income based on the national income tax rate for each jurisdiction adjusted by changes in deferred tax assets and liabilities attributable to temporary differences between the tax bases of assets and liabilities and their carrying amounts in the financial statements, and to unused tax losses.

Deferred tax assets and liabilities are recognised for temporary differences at the tax rates expected to apply when the assets are recovered or liabilities are settled, based on those tax rates which are enacted or substantively enacted for each jurisdiction. The relevant tax rates are applied to the cumulative amounts of deductible and taxable temporary differences to measure the deferred tax asset or liability. An exception is made for certain temporary differences arising from the initial recognition of an asset or a liability, other than a business combination, that at the time of the transaction did not affect either accounting profit or taxable profit or loss.

Deferred tax assets are recognised for deductible temporary differences and unused tax losses only if it is probable that future taxable amounts will be available to utilise those temporary differences and losses.

Deferred tax liabilities and assets are not recognised for temporary differences between the carrying amount and tax bases of investments in subsidiaries where the parent company is able to control the timing of the reversal of the temporary differences and it is probable that the differences will not reverse in the foreseeable future.

Deferred tax assets and liabilities are offset when there is a legally enforceable right to offset current tax assets and liabilities and when the deferred tax balances relate to the same taxation authority. Current tax assets and tax liabilities are offset where the entity has a legally enforceable right to offset and intends either to settle on a net basis, or to realise the asset and settle the liability simultaneously.

Current and deferred tax balances attributable to amounts recognised directly in equity are also recognised directly in equity.

***Tax consolidation legislation***

Galilee Energy Limited and its wholly owned Australian resident entities have implemented the tax consolidation legislation.

The head entity, Galilee Energy Limited, and the subsidiaries in the tax consolidated group continue to account for their own current and deferred tax amounts. These tax amounts are measured as if each entity in the tax consolidated group continues to be a stand alone taxpayer in its own right.

In addition to its own current and deferred tax amounts, Galilee Energy Limited also recognises the current tax liabilities (or assets) and the deferred tax assets arising from unused tax losses and unused tax credits assumed from subsidiaries in the tax consolidated group.

**(e) Income tax (continued)***Tax consolidation legislation (continued)*

Assets or liabilities arising under tax funding agreements with the tax consolidated entities are recognised as amounts receivable from or payable to other entities in the group. Details about the tax funding agreement are disclosed in note 6(g).

Any difference between the amounts assumed and amounts receivable or payable under the tax funding agreement are recognised as a contribution to (or distribution from) wholly-owned tax consolidated entities.

The New Zealand subsidiaries have also elected to be treated as a consolidated group for New Zealand income tax purposes and adopt the same accounting methods as the Australian tax consolidated group.

**(f) Leases**

Leases of property, plant and equipment where the Group as lessee has substantially all the risks and rewards of ownership are classified as finance leases (note 20). Finance leases are capitalised at the lease's inception at the lower of the fair value of the leased property and the present value of the minimum lease payments. The corresponding rental obligations, net of finance charges, are included in financial liabilities. Each lease payment is allocated between the liability and finance cost. The finance cost is charged to the statement of comprehensive income over the lease period so as to produce a constant periodic rate of interest on the remaining balance of the liability for each period. The property, plant and equipment acquired under finance leases is depreciated over the shorter of the asset's useful life and the lease term.

Leases in which a significant portion of the risks and rewards of ownership are retained by the lessor are classified as operating leases (note 25). Payments made under operating leases (net of any incentives received from the lessor) are charged to the statement of comprehensive income on a straight-line basis over the period of the lease.

**(g) Business combinations**

Business combinations are accounted for using the acquisition method. The consideration transferred in a business combination shall be measured at fair value, which shall be calculated as the sum of the acquisition date fair values of the assets transferred by the acquirer, the liabilities incurred by the acquirer to former owners of the acquiree and the equity issued by the acquirer, and the amount of any non-controlling interest in the acquiree. For each business combination, the acquirer measures the non-controlling interest in the acquiree either at fair value or at the proportionate share of the acquiree's identifiable net assets. Acquisition-related costs are expensed as incurred, and included in administrative expenses.

When the Group acquires a business, it assesses the financial assets and liabilities assumed for appropriate classification and designation in accordance with contractual terms, economic conditions, the Group's operating or accounting policies and other pertinent conditions as at the acquisition date.

If the business combination is achieved in stages, the acquisition date fair value of the acquirer's previously held equity interest in the acquiree is remeasured to fair value at the acquisition date through profit and loss. Any contingent consideration to be transferred by the acquirer will be recognised at fair value at the acquisition date.

Subsequent changes to the fair value of the contingent consideration which is deemed to be an asset or liability will be recognised in accordance with AASB 139 either in profit or loss or as a change to other comprehensive income. If the contingent consideration is classified as equity, it should not be remeasured until it is finally settled within equity.

**(h) Interest in joint venture**

The Group has an interest in a joint venture with AGL Energy Ltd as a result of a farm-in arrangement. When the joint venture reaches the appropriate stage, the Group's shares of the assets, liabilities, revenue and expenses of jointly controlled operations will be included in the appropriate line items of the consolidated financial statements, until then the Group's contributions to the joint venture are being expensed through profit or loss.

**(i) Impairment of assets**

Goodwill and intangible assets that have an indefinite useful life are not subject to amortisation and are tested annually for impairment, or more frequently if events or changes in circumstances indicate that they might be impaired. Other financial assets are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash inflows which are largely independent of the cash inflows from other assets or groups of assets (cash-generating units). Non-financial assets other than goodwill that suffered impairment are reviewed for possible reversal of the impairment at each reporting date.

**(j) Cash and cash equivalents**

For Statement of Cash Flows presentation purposes, cash and cash equivalents includes cash on hand, deposits held at call with financial institutions, other short-term, highly liquid investments with original maturities of three months or less that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value. Bank overdrafts are shown within financial liabilities in current liabilities on the statement of financial position.

**(k) Trade and other receivables**

Trade receivables are recognised initially at fair value and subsequently measured at amortised cost, less impairment. Trade receivables are normally due for settlement no more than 30 days from the date of recognition.

Collectibility of trade receivables is reviewed on an ongoing basis. Debts which are known to be uncollectible are written off. A provision for impairment is established when there is objective evidence that the Group will not be able to collect all amounts due according to the original terms of receivables. The amount of the provision is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the original effective interest rate. Cash flows relating to short-term receivables are not discounted if the effect of discounting is immaterial. The amount of the provision is recognised in the statement of comprehensive income.

**(l) Inventories**

Raw materials and stores, work in progress and finished goods are stated at the lower of cost and net realisable value. Cost comprises direct materials, direct labour and an appropriate proportion of variable and fixed overhead expenditure, the latter being allocated on the basis of normal operating capacity.

Costs are assigned to individual items of inventory on the basis of weighted average costs. Costs of purchased inventory are determined after deducting rebates and discounts. Net realisable value is the estimated selling price in the ordinary course of business less the estimated costs of completion and the estimated costs necessary to make the sale.

**(m) Other current assets**

Costs incurred in the removal of overburden in advance of coal recovery are deferred and recorded as work in progress, then amortised on a unit of production basis as the underlying coal is recovered. Any balance is subject to impairment testing in accordance with the group's policy per note 1(i).

**(n) Financial instruments***Initial recognition and measurement*

Financial assets and financial liabilities are recognised when the entity becomes a party to the contractual provisions to the instrument. For financial assets, this is equivalent to the date that the Group commits itself to either the purchase or sale of the asset (ie trade date accounting is adopted).

Financial instruments are initially measured at fair value plus transaction costs, except where the instrument is classified 'at fair value through profit or loss', in which case transaction costs are expensed to profit or loss immediately.

**(n) Financial instruments (continued)***Classification and subsequent measurement*

Finance instruments are subsequently measured at either of fair value, amortised cost using the effective interest rate method, or cost. Fair value represents the amount for which an asset could be exchanged or a liability settled, between knowledgeable, willing parties. Where available, quoted prices in an active market are used to determine fair value. In other circumstances, valuation techniques are adopted.

Amortised cost is calculated as: (a) the amount at which the financial asset or financial liability is measured at initial recognition; (b) less principal repayments; (c) plus or minus the cumulative amortisation of the difference, if any, between the amount initially recognised and the maturity amount calculated using the effective interest method; and (d) less any reduction for impairment.

The effective interest method is used to allocate interest income or interest expense over the relevant period and is equivalent to the rate that exactly discounts estimated future cash payments or receipts (including fees, transaction costs and other premiums or discounts) through the expected life (or when this cannot be reliably predicted, the contractual term) of the financial instrument to the net carrying amount of the financial asset or financial liability. Revisions to expected future net cash flows will necessitate an adjustment to the carrying value with a consequential recognition of an income or expense in profit or loss.

The Group does not designate any interests in subsidiaries, associates or joint venture entities as being subject to the requirements of accounting standards specifically applicable to financial instruments.

*(i) Financial assets at fair value through profit or loss*

Financial assets are classified at 'fair value through profit or loss' when they are either held for trading for the purpose of short-term profit taking, derivatives not held for hedging purposes, or when they are designated as such to avoid an accounting mismatch or to enable performance evaluation where a Group of financial assets is managed by key management personnel on a fair value basis in accordance with a documented risk management or investment strategy. Such assets are subsequently measured at fair value with changes in carrying value being included in profit or loss.

*(ii) Loans and receivables*

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market and are subsequently measured at amortised cost.

*(iii) Held-to-maturity investments*

Held-to-maturity investments are non-derivative financial assets that have fixed maturities and fixed or determinable payments, and it is the Group's intention to hold these investments to maturity. They are subsequently measured at amortised cost.

*(iv) Available-for-sale financial assets*

Available-for-sale financial assets are non-derivative financial assets that are either not suitable to be classified into other categories of financial assets due to their nature, or they are designated as such by management. They comprise investments in the equity of other entities where there is neither a fixed maturity nor fixed or determinable payments. They are subsequently measured at fair value.

*(v) Financial liabilities*

Non-derivative financial liabilities (excluding financial guarantees) are subsequently measured at amortised cost.

*Derivative instruments*

The Group designates certain derivatives as either:

- (a) hedges of the fair value of recognised assets or liabilities or a firm commitment (fair value hedge); or
- (b) hedges of highly probable forecast transactions (cash flow hedges).

At the inception of the transaction the relationship between hedging instruments and hedged items, as well as the Group's risk management objective and strategy for undertaking various hedge transactions is documented.

Assessments, both at hedge inception and on an ongoing basis, of whether the derivatives that are used in hedging transactions have been and will continue to be highly effective in offsetting changes in fair values or cash flows of hedged items, are also documented.

**(n) Financial instruments (continued)****(a) Fair value hedge**

Changes in the fair value of derivatives that are designated and qualify as fair value hedges are recorded in the statement of comprehensive income, together with any changes in the fair value of hedged assets or liabilities that are attributable to the hedged risk.

**(b) Cash flow hedge**

The effective portion of changes in the fair value of derivatives that are designated and qualify as cash flow hedges is recognised in other comprehensive income and accumulated in reserves in equity. The gain or loss relating to the ineffective portion is recognised immediately in the statement of comprehensive income.

Amounts accumulated in the hedge reserve in equity are reclassified to profit or loss in the periods when the hedged item will affect profit or loss.

**Fair value**

Fair value is determined based on current bid prices for all quoted investments. Valuation techniques are applied to determine the fair value for all unlisted securities, including recent arm's length transactions, reference to similar instruments and option pricing models.

**Impairment**

At each reporting date, the Group assesses whether there is objective evidence that a financial instrument has been impaired. In the case of available-for-sale financial instruments, a significant or prolonged decline in the value of the instrument is considered to determine whether an impairment has arisen. Impairment losses are recognised in the statement of comprehensive income.

**Financial guarantees**

Where material, financial guarantees issued, which require the issuer to make specified payments to reimburse the holder for a loss it incurs because a specified debtor fails to make payment when due, are recognised as a financial liability at fair value on initial recognition.

The guarantee is subsequently measured at the higher of the best estimate of the obligation and the amount initially recognised less, when appropriate, cumulative amortisation in accordance with AASB 118: Revenue. Where the entity gives guarantees in exchange for a fee, revenue is recognised under AASB

The fair value of financial guarantee contracts has been assessed using a probability weighted discounted cash flow approach. The probability has been based on:

- the likelihood of the guaranteed party defaulting in a year period;
- the proportion of the exposure that is not expected to be recovered due to the guaranteed party defaulting; and
- the maximum loss exposed if the guaranteed party were to default.

**Derecognition**

Financial assets are derecognised where the contractual rights to receipt of cash flows expires or the asset is transferred to another party whereby the entity no longer has any significant continuing involvement in the risks and benefits associated with the asset. Financial liabilities are derecognised where the related obligations are either discharged, cancelled or expired. The difference between the carrying value of the financial liability extinguished or transferred to another party and the fair value of consideration paid, including the transfer of non-cash assets or liabilities assumed, is recognised in profit or loss.

**(o) Property, plant and equipment**

Land is stated at cost and is not subject to depreciation. All other property, plant and equipment is stated at historical cost less depreciation and impairment losses if applicable. Historical cost includes expenditure that is directly attributable to the acquisition of the items.

Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Group and the cost of the item can be measured reliably. All other repairs and maintenance are charged to the statement of comprehensive income during the financial period in which they are incurred.

Mine development expenditure is carried forward in the statement of financial position at cost less accumulated amortisation. It relates to construction within the mine site of roads, railheads, and other developments which will be used in the mining operation in future financial years. Mine development costs are amortised over the estimated useful life of the asset, which in some cases is equivalent to the estimated economic life of the mine. Other mine development expenditure is expensed when incurred.

With the exception of certain equipment which is depreciated on a units of use basis, depreciation is calculated on a declining basis to allocate the cost of each asset, net of its residual values, over its estimated useful life. The following rates of depreciation are used:

Buildings and leasehold improvements	2% - 30%
Motor vehicles	15% - 30%
Mining infrastructure	Units of use
Plant and equipment	4% - 50%
Leased plant and equipment	Units of use

Assets' residual values and useful lives are reviewed, and adjusted if appropriate, at each balance sheet date.

An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount (note 1(i)).

Gains and losses on disposals are determined by comparing proceeds with carrying amount. Gains and losses are included in the statement of comprehensive income.

**(p) Intangible assets***Mining licences*

Mining licences have a finite useful life and are carried at cost less accumulated amortisation and impairment losses. Amortisation is calculated using a units of use basis to allocate the cost of licences over the recoverable reserves to which they relate. Any balance is subject to impairment testing in accordance with the Group's policy per Note 1(i).

*Goodwill*

Goodwill represents the excess of the cost of an acquisition over the fair value of the Group's share of the net identifiable assets of the acquired subsidiary at the date of the acquisition. Goodwill on acquisitions of subsidiaries is included in intangible assets. Goodwill is not amortised. Instead, goodwill is tested for impairment annually, or more frequently if events or changes in circumstances indicate that it might be impaired, and is carried at cost less impairment losses. Gains and losses on the disposal of an entity include the carrying amount of goodwill relating to the entity sold.

Goodwill is allocated to cash-generating units for the purpose of impairment testing. Each of those cash-generating units represents the Group's investment in each country of operation by each operating segment (note 27).

Any balance is subject to impairment testing in accordance with the Group's policy per Note 1(i).

**(q) Exploration and evaluation expenditure**

Exploration and evaluation expenditure is charged against the statement of comprehensive income in the accounting period in which it is incurred.



**(r) Trade and other payables**

These amounts represent liabilities for goods and services provided to the Group prior to the end of financial year which are unpaid. The amounts are unsecured and are usually paid within 30 days of recognition.

**(s) Borrowing costs**

Borrowing costs directly attributable to the acquisition, construction or production of assets that necessarily take a substantial period of time to prepare for their intended use or sale, are added to the cost of those assets, until the assets are substantially ready for their intended use or sale.

All other borrowing costs are expensed as incurred.

**(t) Provisions**

A provision is recognised when the Group has a present legal or constructive obligation as a result of past events for which it is probable that an outflow of economic benefits will result and the amount of the outflow can be reliably estimated. Provisions are not recognised for future operating losses.

A provision for rehabilitation is recognised when there is a present obligation to rehabilitate an area disturbed, it is probable that an outflow of resources will be required to settle the obligation, and a reliable estimate can be made of the amount of the obligation. An asset is created as part of the development assets, to the extent that the development relates to future production activities, which is offset by a provision for rehabilitation.

Where there are a number of similar obligations, the likelihood that an outflow will be required in settlement is determined by considering the class of obligations as a whole. A provision is recognised even if the likelihood of an outflow with respect to any one item included in the same class of obligations may be small.

Provisions are measured at the present value of management's best estimate of the expenditure required to settle the present obligation at the reporting date. The discount rate used to determine the present value reflects current market assessments of the time value of money and the risks specific to the liability. The increase in the provision due to the passage of time is recognised as interest expense.

**(u) Employee benefits****(i) Employee benefits**

Provision is made for the Group's liability for employee benefits arising from services rendered by employees to balance date. Employee benefits that are expected to be settled within one year have been measured at the amounts expected to be paid when the liability is settled. Employee benefits payable later than one year have been measured at the present value of the estimated future cash outflows to be made for those benefits. Those cash flows are discounted using market yields on national government bonds with terms to maturity that match the expected timing of cash flows.

**(ii) Retirement benefit obligations**

Contributions to defined contribution superannuation plans are expensed when incurred.

**(iii) Share-based equity settled benefits**

The Group provides benefits to employees in the form of share-based payment transactions, whereby employees render services in exchange for shares or options over shares ("equity-settled transactions").

The fair value of options granted to employees and consultants are recognised as an employee benefit expense with a corresponding increase in equity (share option reserve). The fair value is measured at grant date and recognised over the period during which the employees become unconditionally entitled to the options. Fair value is determined by an independent valuer using a Black-Scholes option pricing model. In determining fair value, no account is taken of any performance conditions other than those related to the share price of Galilee Energy Ltd ("market conditions"). The cumulative expense recognised between grant date and vesting date is adjusted to reflect the directors' best estimate of the number of options that will ultimately vest because of internal conditions of the options, such as the employees having to remain with the Group until vesting date, or such that employees are required to meet internal sales targets.

No expense is recognised for options that do not ultimately vest because internal conditions were not met. An expense is still recognised for options that do not ultimately vest because a market condition was not met.

**(u) Employee benefits (continued)****(iii) Share-based equity settled benefits (continued)**

Where the terms of options are modified, the expense continues to be recognised from grant date to vesting date as if the terms had never been changed. In addition, at the date of the modification, a further expense is recognised for any increase in fair value of the transaction as a result of the change.

Where options are cancelled, they are treated as if vesting occurred on cancellation and any unrecognised expenses are taken immediately to the statement of comprehensive income. However, if new options are substituted for the cancelled options and designated as a replacement on grant date, the combined impact of the cancellation and replacement options are treated as if they were a modification.

**(v) Issued capital**

Ordinary shares are classified as equity.

Incremental costs directly attributable to the issue of new shares or options are shown in equity as a deduction, net of tax, from the proceeds.

If the entity reacquires its own equity instruments, e.g. as the result of a share buy-back, those instruments are deducted from equity and the associated shares are cancelled. No gain or loss is recognised in the profit or loss and the consideration paid including any directly attributable incremental costs (net of income taxes) is recognised directly in equity.

**(w) Earnings per share****(i) Basic earnings per share**

Basic earnings per share is calculated by dividing the profit attributable to equity holders of the company, excluding any costs of servicing equity other than ordinary shares, by the weighted average number of ordinary shares outstanding during the financial year, adjusted for bonus elements in ordinary shares issued during the year.

**(ii) Diluted earnings per share**

Diluted earnings per share adjusts the figures used in the determination of basic earnings per share to take into account the after income tax effect of interest and other financing costs associated with dilutive potential ordinary shares and the weighted average number of shares assumed to have been issued for no consideration in relation to dilutive potential ordinary shares.

**(x) Goods and Services Tax (GST)**

Revenues, expenses and assets are recognised net of the amount of associated GST, unless the GST incurred is not recoverable from the taxation authority. In this case it is recognised as part of the cost of acquisition of the asset or as part of the expense.

Receivables and payables are stated inclusive of the amount of GST receivable or payable. The net amount of GST recoverable from, or payable to, the taxation authority is included with other receivables or payables in the statement of financial position.

Cash flows are presented on a gross basis. The GST components of cash flows arising from investing or financing activities which are recoverable from, or payable to the taxation authority, are presented as operating cash flow.

**(y) Critical accounting estimates and judgements**

Estimates and judgements are continually evaluated and are based on historical experience and other factors, including expectations of future events that may have a financial impact on the entity and that are believed to be reasonable under the circumstances.

**(i) Other receivables**

As detailed in Note 11, the directors have made a judgement regarding the recoverability of \$800,881 of Other Receivables – Current. This judgement reflects the terms of the sale and purchase agreement and has been formed on the basis of independent professional legal advice and all information available to the directors as at the time of preparing the financial report. Whilst there is some level of uncertainty regarding the recoverability of this amount, the directors are strongly of the view that this amount is recoverable and it will be recovered following the outcomes of the arbitration process and/or any subsequent litigation.

**(ii) Rehabilitation Provision**

Estimates are made for rehabilitation based on the level of disturbance known at each balance date. These estimates are then costed at future rates and discounted back to present value. The level of rehabilitation depends on the requirements of the mining licence for each area of interest.

The rehabilitation provision has been calculated by the JV operator AGL Energy limited. The calculation assumes that rehabilitation will occur in five years time. Costs have been discounted at the appropriate bond rate.

**(z) Accounting Standards issued not yet effective**

The following new or amended accounting standards and interpretations have been issued, but are not mandatory for the financial year ended 30 June 2011. They have not been adopted in preparing the financial statements for the year ended 30 June 2011 and are expected to impact the group in the period of initial application. In all cases the group intends to apply these standards from the application date as indicated in the table below.

**AASB 9 - Financial instruments**

Amends the requirement that gains and losses on financial liabilities measured at fair value are recognised in profit or loss, to require that changes in the credit risk of liabilities are recognised in other comprehensive income.

*Application date:* Periods beginning on or after January 2013

*Impact on initial application:* Due to the recent release of these amendments and because adoption is not required until 30 June 2014 year end, the group has not yet made an assessment of the impact of these amendments.

**AASB 2010-4**

Not urgent but necessary changes to IFRSs as a result of IASB's 2009 annual improvement program.

*Application date:* Periods beginning on or after January 2011

*Impact on initial application:* Not likely to have any material effect on the group's financial statements.

**AASB 2010-8 - Deferred tax: recovery of underlying assets**

Refers to recovery of deferred tax assets and liabilities relating to investment property measured using the fair value model.

*Application date:* Periods beginning on or after January 2012

*Impact on initial application:* The group does not have any investment property measured using the fair value model, so there will be no impact on the financial statements when these amendments are first adopted.

**AASB 2010-6 - Disclosures on transfers of financial assets**

Requires additional disclosures for entities that transfer financial assets, including information about the nature of financial assets involved and the risks associated with them.

*Application date:* Periods beginning on or after July 2011

*Impact on initial application:* As this is a disclosure standard only, there will be no impact on the amounts recognised in the financial statements.

Notes to the Consolidated Financial Statements  
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<b>2 Revenue from continuing operations</b>	<b>2011</b>	<b>2010</b>
	<b>\$</b>	<b>\$</b>
Interest received or receivable	<b>908,123</b>	210,236
Sundry income	<b>113,900</b>	55,188
	<hr/>	<hr/>
Total revenue from continuing operations	<b>1,022,023</b>	265,424
	<hr/>	<hr/>
<b>3 Expenses of continuing operations</b>	<b>2011</b>	<b>2010</b>
	<b>\$</b>	<b>\$</b>
Includes the following specific expenses:		
<b>Exploration and evaluation</b>		
Proportionate share of exploration and evaluation expenditure in joint venture (refer note 1(h))	<b>1,697,464</b>	-
Depreciation of plant and equipment	<b>20,542</b>	43,914
	<hr/>	<hr/>
<b>Administration</b>		
Depreciation		
Buildings and leasehold improvements	<b>8,740</b>	10,687
Motor vehicles	<b>2,116</b>	1,936
Plant and equipment	<b>22,315</b>	12,877
	<hr/>	<hr/>
	<b>33,171</b>	25,500
Net Loss/(Gain) on disposals of property, plant and equipment	<b>2,819</b>	(1,651)
Share based payments expense	<b>290,217</b>	349,333
Rental expense relating to operating leases - minimum lease payments	<b>169,656</b>	163,951
Defined contribution superannuation expense	<b>48,141</b>	39,697
	<hr/>	<hr/>
<b>4 Discontinued operations</b>		
<b>(a) Profit from discontinued operations after tax</b>		
The group's wholly owned New Zealand coal mining operation was sold on 18th March 2011, and has been classified as a discontinued operation. The financial performance of the discontinued operation to the date of sale was as follows:		
	<b>2011</b>	<b>2010</b>
	<b>\$</b>	<b>\$</b>
<b>Revenue</b>		
Coal sales	<b>11,384,528</b>	14,621,345
Freight and service revenue	<b>6,352,745</b>	8,084,610
Interest and sundry income	<b>335,784</b>	89,002
	<hr/>	<hr/>
	<b>18,073,057</b>	22,794,957
<b>Expenses</b>		
Mine operating expenses (excl depreciation and amortisation)	<b>11,789,391</b>	16,480,255
Depreciation	<b>641,272</b>	979,817
Amortisation	<b>560,930</b>	571,163
Loss on disposal of plant and equipment	<b>211,586</b>	35,520
Exploration and evaluation expenses	<b>1,148,431</b>	440,691
Selling and administration expenses	<b>3,680,649</b>	925,351
Finance costs	<b>164,489</b>	381,881
	<hr/>	<hr/>
	<b>18,196,748</b>	19,814,678
	<hr/>	<hr/>
<b>Profit from discontinued operation before income tax</b>	<b>(123,691)</b>	2,980,279
Income tax (benefit)/expense attributable to discontinued operations	<b>(157,312)</b>	997,748
	<hr/>	<hr/>
<b>Profit/(loss) from discontinued operation after income tax</b>	<b>33,621</b>	1,982,531
	<hr/>	<hr/>

**4 Discontinued operations (continued)**

	2011 \$	2010 \$
<b>(b) Gains on sales of discontinued operations</b>		
Consideration received/receivable:		
Received in cash - sale consideration, net of selling costs (note 4 (f))	33,053,130	8,361,378
Receivable in cash - sale consideration (note 11)	800,881	-
	<b>33,854,011</b>	<b>8,361,378</b>
Consideration received/receivable	<b>33,854,011</b>	<b>8,361,378</b>
Carrying amount of net assets sold	7,448,971	722,580
Reclassification adjustment on disposal of foreign subsidiary (note 5)	574,874	-
	<b>8,023,845</b>	<b>722,580</b>
Gains on sales before income tax	<b>25,830,166</b>	7,638,798
Income tax expense (note 6 (i))	-	2,291,639
	<b>25,830,166</b>	<b>5,347,159</b>
<b>Gains on sales after income tax</b>		
<i>Joint ventures – jointly controlled assets</i>		
<b>(c) Profit from discontinued operations</b>		
Profit/(loss) from discontinued operation after income tax	33,621	1,982,531
Gain on sale of New Zealand coal mining operation	<b>25,830,166</b>	-
Gain on sale of interest in "Broughton" mining tenement joint venture	-	7,638,798
Tax expense	-	(2,291,639)
	<b>25,863,787</b>	<b>7,329,690</b>
<b>Profit from discontinued operations after tax</b>	<b>25,863,787</b>	<b>7,329,690</b>
<b>(d) Cash flows from discontinued operations</b>		
Net cash inflow from operating activities	791,877	4,205,682
Net cash inflow from investing activities	<b>26,968,741</b>	7,787,539
Net cash inflow/(outflow) from financing activities	<b>(2,877,829)</b>	<b>(2,855,181)</b>
	<b>24,882,789</b>	<b>9,138,040</b>
<b>(e) Assets and liabilities of the discontinued New Zealand coal mining operation as at 18 March 2011:</b>		
Cash and cash equivalents	1,071,370	
Trade and other receivables	4,370,500	
Inventory	939,141	
Overburden in advance	605,630	
Property, plant and equipment	5,544,918	
Non-current receivables	165,485	
Intangible assets	2,076,977	
<b>Total assets</b>	<b>14,774,021</b>	
Trade creditors	3,267,133	
Borrowings	2,880,800	
Current and deferred tax liabilities	208,204	
Provisions	819,151	
Employee benefits	149,762	
<b>Total liabilities</b>	<b>7,325,050</b>	
<b>Net assets</b>	<b>7,448,971</b>	

**4 Discontinued operations (continued)**

	2011
	\$
<b>(f) Consideration received in cash consists of:</b>	
Consideration received for sale of foreign subsidiary	28,486,139
Consideration received in settlement of intercompany loan	4,723,123
Selling costs incurred	(156,132)
	<hr/>
Consideration received in cash net of selling costs	33,053,130
Cash disposed of with subsidiary	(1,071,370)
	<hr/>
Net cash inflow from sale of subsidiary company, net of cash	31,981,760

**5 Other comprehensive income**

	2011	2010
	\$	\$
Reclassification adjustment on disposal of foreign subsidiary (note 4(b))	574,874	-
Foreign currency translation adjustment for the year	(114,899)	69,542
	<hr/>	<hr/>
Net gain/(loss) on foreign currency translation	459,975	69,542

**6 Income tax**

	2011	2010
	\$	\$
<b>(a) Income tax expense/(benefit)</b>		
Current tax	-	-
Deferred tax, arising from the recognition and reversal of temporary difference	-	(2,459,709)
Adjustments for deferred tax of prior periods	3,931	(188,031)
De-recognition of deferred tax assets	(141,368)	-
	<hr/>	<hr/>
	(137,437)	(2,647,740)
<b>Deferred income tax expense/(benefit) included in income tax expense/(benefit) comprises:</b>		
Decrease/(Increase) in deferred tax assets	151,732	(3,664,357)
Increase/(Decrease) in deferred tax liabilities	(682,018)	1,204,648
Decrease in deferred tax liabilities due to transfer to discontinued operation	388,918	-
	<hr/>	<hr/>
	(141,368)	(2,459,709)
<b>(b) Numerical reconciliation of Income tax expense/(benefit) to prima facie tax payable:</b>		
Profit/(loss) from continuing operations before income tax	(4,570,958)	(8,379,372)
	<hr/>	<hr/>
Tax at the Australian tax rate of 30% (2010: 30%)	(1,371,287)	(2,513,812)
Tax effect of amounts which are not deductible (taxable) in calculating taxable income:		
Non-deductible expenses	1,023	-
Non-deductible depreciation	2,622	3,206
Non-deductible share based payments	87,065	104,800
Assessable income on tenements	-	150,000
Current year tax losses not recognised	987,554	216,800
Recognised directly in equity	(41,497)	-
	<hr/>	<hr/>
Carried to next page	(334,520)	(2,039,006)

**6 Income tax (continued)**

	2011 \$	2010 \$
<b>(b) Numerical reconciliation of Income tax expense/(benefit) to prima facie tax payable (continued):</b>		
Brought forward from previous page	(334,520)	(2,039,006)
De-recognition of net deferred tax assets	193,152	-
Adjustments for current tax of prior periods	-	(188,031)
Adjustments for deferred tax of prior periods	3,931	(420,703)
Income tax expense/(benefit)	<u>(137,437)</u>	<u>(2,647,740)</u>
<b>(c) Deferred tax assets/liabilities</b>		
<b>The balance comprises temporary differences attributable to:</b>		
<i>Amounts recognised in profit or loss</i>		
Accrued expenses	10,467	28,389
Employee benefits	11,528	62,118
Provision for lease make-good expense	2,940	2,940
Lease fitout allowance	7,014	9,351
Black hole expenses	112,892	57,630
Receivables	(82,320)	(153,513)
Provision for rehabilitation	108,700	197,462
Property, plant and equipment	-	(226,193)
Overburden in advance	-	(274,077)
Intangibles	-	(149,193)
Rehabilitation asset	-	(55,147)
Unrealised exchange gains	(164,724)	(70,940)
Losses brought forward	-	47,383
	<u>6,497</u>	<u>(523,790)</u>
<i>Amounts recognised directly in equity</i>		
Share issue expenses less amortisation	121,730	121,730
	<u>128,227</u>	<u>(402,060)</u>
De-recognition of net deferred tax assets through profit or loss	(6,497)	-
De-recognition of net deferred tax assets from equity	(121,730)	-
Deferred tax assets/(liabilities)	<u>-</u>	<u>(402,060)</u>
<b>(d) Movements in deferred tax assets/(liabilities)</b>		
Opening balance at 1 July	(402,060)	373,694
Charged/(credited) to profit or loss - continuing operations	141,369	(829,678)
Charged/(credited) to profit or loss - discontinued operations	203,074	-
Deferred tax credited/(charged) directly to equity	-	53,924
Deferred tax liability disposed on sale of foreign subsidiary	185,844	-
De-recognition of deferred tax assets through profit or loss	(6,497)	-
De-recognition of deferred tax assets from equity	(121,730)	-
Closing balance at 30 June	<u>-</u>	<u>(402,060)</u>
<b>(e) Amounts recognised directly in equity</b>		
Aggregate deferred tax arising in the reporting period and not recognised in net profit or loss but directly debited/(credited) to equity	<u>(121,730)</u>	<u>53,924</u>

**6 Income tax (continued)**

<b>(f) Tax losses</b>	<b>2011</b>	<b>2010</b>
Unused tax losses for which no deferred tax asset has been recognised	\$	\$
Potential tax benefit at 30%	<b>29,471,127</b>	26,960,190
	<b>8,841,338</b>	8,088,057

**(g) Tax consolidation legislation**

Galilee Energy Limited and its wholly owned Australian resident subsidiaries have implemented the tax consolidation legislation. The accounting policy in relation to this legislation is set out in note 1(e).

On adoption of the tax consolidation legislation, the entities in the tax consolidated group entered into a tax sharing agreement which, in the opinion of the directors, limits the joint and several liability of the wholly-owned entities in the case of a default by the head entity, Galilee Energy Limited.

The entities have also entered into a tax funding agreement under which the wholly-owned entities fully compensate Galilee Energy Limited for any current tax payable assumed and are compensated by Galilee Energy Limited for any current tax receivable and deferred tax assets relating to unused tax losses or unused tax credits that are transferred to Galilee Energy Limited under the tax consolidation legislation. The funding amounts are determined by reference to the amounts recognised in the wholly-owned entities' financial statements.

The amounts receivable/payable under the tax funding agreement are due upon receipt of the funding advice from the head entity, which is issued as soon as practicable after the head entity had determined its funding needs. The head entity may also require payment of interim funding amounts to assist with its obligations to pay tax instalments. The funding amounts are recognised as current intercompany receivables or payables where it is expected funding will be required from member entities in the next 12 months, otherwise they are classified as non-current.

**(h) Franking credits**

The Group has no franking credits available (2010: nil).

**(i) Gain on sale of discontinued operations**

The sale of ERG is largely capital gains tax exempt as ERG qualified as an active foreign business. ERG's active assets represented 87% of all assets and capital gains tax is only payable on 13% of the gain. The Company's existing tax losses offset this gain.



## 7 Interests of Key Management Personnel (KMP)

Refer to the Remuneration Report contained in the Directors' Report for details of the remuneration paid or payable to each member of the Group's key management personnel for the year ended 30 June 2011.

The totals of remuneration paid to KMP of the Group during the year are as follows:

	2011	2010
	\$	\$
Short-term employee benefits	1,270,905	1,592,994
Post-employment benefits	53,101	42,002
Share-based equity settled payments	290,217	349,333
Termination benefits	172,587	-
	<b>1,786,811</b>	<b>1,984,329</b>

There are no other long-term benefits.

### KMP option holdings

The number of options over ordinary shares held by each KMP of the Group during the period is as follows:

	Balance at the start of the year	Granted as remuneration	Options Exercised	Other Changes	Balance at the end of the year	Total vested	Vested and exercisable	Vested and unexercisable
<b>2011</b>								
S J Koroknay	2,000,000	-	-	-	2,000,000	1,000,000	-	1,000,000
L C Rathie	2,000,000	-	-	-	2,000,000	1,000,000	-	1,000,000
<b>2010</b>								
R J May *	2,000,000	-	-	(2,000,000)	-	-	-	-
J S McIntyre *	2,000,000	-	-	(2,000,000)	-	-	-	-
S J Koroknay	-	2,000,000	-	-	2,000,000	-	-	-
L C Rathie	-	2,000,000	-	-	2,000,000	-	-	-

\* R J May resigned from the Board on 10th June 2010 and J S McIntyre on 21st June 2010.

### KMP shareholdings

The number of ordinary shares in Galilee Energy Limited held by each KMP of the Group during the period is as follows:

Ordinary shares	Balance at the start of the year	Shares acquired during the year	Other * changes during the year	Balance at the end of the year
<b>2011</b>				
S J Koroknay	125,000	-	-	125,000
C G Smith ( <i>resigned 15th Nov 2010</i> )	30,357,120	-	(30,357,120)	-
L C Rathie	-	100,000	-	100,000
R Camarri	235,536	-	-	235,536
S Aarons ( <i>retrenched 31st May 2011</i> )	171,625	-	(171,625)	-
WA Parker	20,000	-	-	20,000
<b>2010</b>				
S J Koroknay	100,000	25,000	-	125,000
C G Smith	17,263,953	13,093,167	-	30,357,120
J S McIntyre ( <i>resigned 21st June 2010</i> )	880,432	220,108	(1,100,540)	-
R J May ( <i>resigned 10th June 2010</i> )	241,126	60,282	(301,408)	-
L C Rathie	-	-	-	-
R Camarri	25,000	210,536	-	235,536
S Aarons	137,300	34,325	-	171,625
WA Parker	15,000	5,000	-	20,000

There were no shares held nominally by key management personnel (2010: Nil)

There were no shares granted as compensation or on exercise of options previously granted as compensation (2010: Nil)

\* "Other" changes occurred because when people leave the company they are no longer classed as KMPs.

### Other KMP transactions

There have been no other transactions involving equity instruments other than those described in the tables above. For details of other transactions with KMP, refer to Note 31: Related party transactions.

Notes to the Consolidated Financial Statements  
 30 June 2011

<b>8 Auditors' remuneration</b>	<b>2011</b>	<b>2010</b>
	<b>\$</b>	<b>\$</b>
Remuneration of the auditor of the parent company for:		
Auditing or reviewing the financial reports	<b>118,639</b>	122,099
Taxation services	<b>22,365</b>	18,160
Advisory services	<b>46,347</b>	-
	<b>187,351</b>	140,259
<hr/>		
<b>9 Earnings per share (EPS)</b>		
<b>(a) Earnings used in calculating earnings per share</b>		
<i>Basic and diluted earnings</i>		
Profit/(Loss) for the year from continuing operations	<b>(4,433,521)</b>	(5,731,632)
Profit/(Loss) for the year from discontinued operations	<b>25,863,787</b>	7,329,690
	<b>21,430,266</b>	1,598,058
<hr/>		
<b>(b) Weighted average number of ordinary shares</b>	<b>2011</b>	<b>2010</b>
	<b>Number</b>	<b>Number</b>
Weighted average number of ordinary shares outstanding during the year used in calculating basic EPS	152,140,466	105,944,612
Weighted average number of dilutive options outstanding *	-	-
	<b>152,140,466</b>	<b>105,944,612</b>
<hr/>		
Weighted average number of ordinary shares and potential ordinary shares outstanding during the year used in calculating diluted EPS	152,140,466	105,944,612
<hr/>		
* Options were not included in the previous year because the Group had a loss and options were therefore considered anti-dilutive. Options were not included in the current year as they are out of the money and are not considered dilutive. There are 9,000,000 options outstanding which are potentially dilutive.		
	<b>2011</b>	<b>2010</b>
	<b>Cents</b>	<b>Cents</b>
<b>(c) Earnings per share</b>		
Basic earnings per share	<b>(2.9)</b>	(5.4)
Diluted earnings per share	<b>(2.9)</b>	(5.4)
<b>From discontinued operations</b>		
Basic earnings per share	<b>17.0</b>	6.9
Diluted earnings per share	<b>17.0</b>	6.9
<b>From profit for the year</b>		
Basic earnings per share	<b>14.1</b>	1.5
Diluted earnings per share	<b>14.1</b>	1.5
<hr/>		
<b>10 Cash and cash equivalents</b>	<b>2011</b>	<b>2010</b>
	<b>\$</b>	<b>\$</b>
Cash at bank and in hand	<b>967,005</b>	1,749,548
Deposits at call (average remaining term is 90 days)	<b>39,320,833</b>	9,685,792
	<b>40,287,838</b>	11,435,340
<hr/>		

The carrying amount of financial assets represents the maximum exposure to credit risk. The Group has no significant credit risk as funds are invested only with financial institutions with very high credit ratings.

Notes to the Consolidated Financial Statements  
 30 June 2011

**11 Trade and other receivables**

	2011	2010
	\$	\$
<b>CURRENT</b>		
Trade receivables	687	1,464,586
Other receivables	1,084,127	168,736
Prepayments	21,504	415,311
	<b>1,106,318</b>	<b>2,048,633</b>
<b>NON-CURRENT</b>		
Environmental bonds and deposits	640,942	839,751

**Material uncertainty regarding recoverability of other receivables:**

Included in Other Receivables – Current of \$1,084,127 is an amount of \$800,881 receivable from the purchaser of Eastern Resources Group Limited (ERG). This amount relates to the purchase price adjustment for the sale of the consolidated entity's investment in ERG. This amount is currently disputed by the purchaser and is subject to arbitration, the outcome of which is uncertain. The dispute has arisen as the purchaser included items in the purchase price adjustment that are not identified in the Share Purchase Agreement. The directors are strongly of the view that this amount is recoverable, consequently no adjustment has been made in the financial statements. Should the consolidated entity receive an unfavourable outcome from the arbitration process and/or any subsequent litigation, Other Receivables of \$800,881 or some proportion thereof may not be recoverable.

As of 30 June 2011, there were no overdue or impaired trade receivables. At 30th June 2010 trade receivables past due but not impaired totalled \$30,820. All were less than two months overdue.

Refer to Note 32 for further description of the Group's credit risk exposures.

**12 Inventories**

(Refer also to Note 4 - Discontinued operations.)

	2011	2010
	\$	\$
Raw materials and stores - at cost	-	33,718
Work in progress - at cost	-	258,005
Finished goods - at cost	-	919,223
	-	1,210,946

**13 Other assets**

(Refer also to Note 4 - Discontinued operations.)

	2011	2010
	\$	\$
Overburden stripped in advance of coal production	-	913,591
	-	913,591

**14 Assets classified as held for sale**

	2011	2010
	\$	\$
<b>Exploration and evaluation expenditure</b>		
<b>Movements in exploration and evaluation expenditure</b>		
Opening net book amount	-	722,576
Disposals (refer Note 4)	-	(722,576)
	-	-
Closing net book amount	-	-

**15 Interest in joint venture**

The group through its subsidiary Galilee Resources Limited has a joint venture agreement in place for the development of its tenement ATP529P in the Galilee basin with AGL Energy Ltd. Under the Joint Operating Agreement AGL is the operator for exploration and development programs. The group holds a 50% interest. As at balance date the development is not an accounting joint venture in accordance with AASB 131.

**16 Subsidiaries and transactions with non-controlling interests**
**(a) Significant investments in subsidiaries**

The consolidated financial statements incorporate the assets, liabilities and results of the following subsidiaries in accordance with the accounting policy described in Note 1(b):

Name of entity	Country of Incorporation	Class of equity	Equity Holding	
			2011	2010
Galilee Resources Limited **	Australia	Ordinary	100%	100%
Beaconsfield Energy Development Pty Ltd **	Australia	Ordinary	100%	100%
Capricorn Energy Pty Ltd **	Australia	Ordinary	100%	100%
Eastern Resources Group Limited *	New Zealand	Ordinary	-	100%
Eastern Coal Supplies Limited	New Zealand	Ordinary	-	100%
Cascade Coal Limited	New Zealand	Ordinary	-	100%
Cascade West Limited (dormant)	New Zealand	Ordinary	-	100%
Takitimu Coal Limited	New Zealand	Ordinary	-	100%
Rochfort Coal Mining Limited	New Zealand	Ordinary	-	100%
Broughton Coal Mining Pty Ltd (deregistered)	Australia	Ordinary	-	100%
Dorben Pty Ltd (deregistered)	Australia	Ordinary	-	100%
Roverwich Pty Ltd (deregistered)	Australia	Ordinary	-	100%

\* On 18 March 2011 Galilee Energy Limited sold all the shares it owned in Eastern Resources Group Limited (ERG). ERG was the intermediate parent company of Galilee Energy Limited's New Zealand group. Cascade Coal Limited, Takitimu Coal Limited, Eastern Coal Supplies Limited, Rochfort Coal Mining Limited and Cascade West Limited were all wholly owned and held directly by ERG and indirectly by Galilee Energy Limited until the sale. All of the above-mentioned subsidiaries have the same reporting date as the parent, Galilee Energy Limited.

**(b) transactions with non-controlling interests**

\*\* During the previous financial year Galilee Energy Limited acquired the shares owned by the non-controlling shareholders of Galilee Resources Limited through a 1 for 7 scrip for scrip share issue. Shareholders in Galilee Resources were issued 1 share in Galilee Energy for every 7 shares they held in Galilee Resources. Galilee Resources Limited is the intermediate parent of Beaconsfield Energy Development Pty Ltd and Capricorn Energy Pty Ltd. These two companies are wholly owned and held directly by Galilee Resources Limited and indirectly by Galilee Energy Limited.

This transaction saw Galilee Energy Limited acquire the non-controlling interest in full. The effect of changes in ownership interest of Galilee Resources Limited on the equity attributable to owners of Galilee Energy Limited is summarised as follows:

	2011	2010
	\$	\$
Carrying amount of non-controlling interests acquired	-	(2,115,643)
Consideration paid to non-controlling interests	-	(11,032,134)
Excess of consideration paid recognised in the non-controlling elimination reserve within equity	-	(13,147,777)

There were no transactions with non-controlling interests in 2011.

Notes to the Consolidated Financial Statements  
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**17 Property, plant and equipment**

	Freehold land	Buildings & leasehold improvements	Mining infrastructure	Plant and equipment	Leased plant and equipment	Vehicles	Total
	\$	\$	\$	\$	\$	\$	\$
<b>At 30 June 2011</b>							
Cost	8,000	139,719	-	131,635	-	-	279,354
Accumulated depreciation	-	(55,223)	-	(72,336)	-	-	(127,559)
<b>Net book amount</b>	<b>8,000</b>	<b>84,496</b>	<b>-</b>	<b>59,299</b>	<b>-</b>	<b>-</b>	<b>151,795</b>

**Year ended 30 June 2011**

Balance, 1 July 2010	617,360	514,740	558,940	2,630,968	2,412,770	187,123	6,921,901
Exchange differences	(59,224)	(39,998)	(55,272)	(245,063)	(207,417)	(17,515)	(624,489)
Re-classifications	-	-	-	(2,085)	-	2,085	-
Additions	-	-	111,202	526,086	517,542	13,879	1,168,709
Disposals (note (a))	(550,136)	(361,603)	(523,158)	(2,543,843)	(2,472,867)	(157,931)	(6,609,538)
Depreciation charge	-	(28,643)	(91,712)	(306,764)	(250,028)	(27,641)	(704,788)
<b>Balance, 30 June 2011</b>	<b>8,000</b>	<b>84,496</b>	<b>-</b>	<b>59,299</b>	<b>-</b>	<b>-</b>	<b>151,795</b>

	Freehold land	Buildings & leasehold improvements	Mining infrastructure	Plant and equipment	Leased plant and equipment	Vehicles	Total
	\$	\$	\$	\$	\$	\$	\$
<b>At 30 June 2010</b>							
Cost	617,360	653,483	766,744	5,128,374	3,200,965	363,469	10,730,395
Accumulated depreciation	-	(138,743)	(207,804)	(2,497,406)	(788,195)	(176,346)	(3,808,494)
<b>Net book amount</b>	<b>617,360</b>	<b>514,740</b>	<b>558,940</b>	<b>2,630,968</b>	<b>2,412,770</b>	<b>187,123</b>	<b>6,921,901</b>

**Year ended 30 June 2010**

Balance, 1 July 2009	611,476	555,312	707,279	2,795,499	2,702,027	198,932	7,570,525
Exchange differences	5,884	3,749	3,938	29,780	20,332	1,655	65,338
Re-classifications	-	-	-	151,390	(151,390)	-	-
Additions	-	-	12,120	272,017	217,064	32,575	533,776
Disposals	-	-	-	(187,339)	-	(4,118)	(191,457)
Depreciation charge	-	(44,321)	(164,397)	(430,379)	(375,263)	(41,921)	(1,056,281)
<b>Balance, 30 June 2010</b>	<b>617,360</b>	<b>514,740</b>	<b>558,940</b>	<b>2,630,968</b>	<b>2,412,770</b>	<b>187,123</b>	<b>6,921,901</b>

**(a) Disposals**

	Freehold land	Buildings & leasehold improvements	Mining infrastructure	Plant and equipment	Leased plant and equipment	Vehicles	Total
	\$	\$	\$	\$	\$	\$	\$
(i) Disposals in the ordinary course of business	-	-	-	(241,066)	(823,556)	-	(1,064,622)
(ii) Disposals on sale of the NZ business	(550,136)	(361,603)	(523,158)	(2,302,777)	(1,649,311)	(157,931)	(5,544,916)
	<b>(550,136)</b>	<b>(361,603)</b>	<b>(523,158)</b>	<b>(2,543,843)</b>	<b>(2,472,867)</b>	<b>(157,931)</b>	<b>(6,609,538)</b>

Notes to the Consolidated Financial Statements  
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**18 Intangible assets**

(Refer also to Note 4 - Discontinued operations.)

	Mining Licences \$	Goodwill \$	Rehabilitation Asset	Total \$
<b>2011</b>				
<b>Movements in intangible assets</b>				
Balance, 1 July 2010	1,936,532	540,282	183,823	<b>2,660,637</b>
Additions	-	-	209,414	<b>209,414</b>
Amortisation charge *	(360,973)	-	(190,156)	<b>(551,129)</b>
Exchange differences	(170,631)	(52,510)	(18,803)	<b>(241,944)</b>
Disposals on sale of shares in ERG Ltd	(1,404,928)	(487,772)	(184,278)	<b>(2,076,978)</b>
Balance, 30 June 2011	-	-	-	-
<b>2010</b>				
<b>Movements in intangible assets</b>				
Balance, 1 July 2009	2,422,113	535,065	333,972	3,291,150
Additions	-	-	120,434	120,434
Amortisation charge *	(499,496)	-	(270,919)	(770,415)
Exchange differences	13,915	5,217	336	19,468
Balance, 30 June 2010	1,936,532	540,282	183,823	2,660,637
<b>Closing balance</b>				
Cost	3,559,619	568,309	415,008	4,542,936
Accumulated amortisation	(1,623,087)	-	(231,185)	(1,854,272)
Accumulated exchange differences	-	(28,027)	-	(28,027)
Net book amount	1,936,532	540,282	183,823	2,660,637

\* The amortisation charge is included in the statement of comprehensive income.

**19 Trade and other payables**

	2011 \$	2010 \$
Trade payables	<b>562,135</b>	1,792,232
Other payables	<b>113,966</b>	138,490
Employee benefits payable	<b>38,427</b>	207,061
	<b>714,528</b>	2,137,783

Notes to the Consolidated Financial Statements  
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**20 Financial liabilities**

	2011 \$	2010 \$
<b>CURRENT</b>		
<b>Secured</b>		
Lease liabilities (note 25)	-	634,758
Bank term loan	-	286,760
<b>Unsecured</b>		
Loan from related company (note 31)	-	200,000
	-	1,121,518
<b>NON-CURRENT</b>		
<b>Secured</b>		
Lease liabilities (note 25)	-	915,490
Bank term loan	-	1,744,436
	-	2,659,926
The total secured liabilities (current and non-current) are as follows:		
Lease liabilities	-	1,550,248
Bank term loans	-	2,031,196
	-	3,581,444

Lease liabilities and bank term loan (current and non-current) were liabilities of Eastern Resources Group Ltd ("ERG") and were de-recognised on the sale of ERG.

**21 Provisions**

	2011 \$	2010 \$
Rehabilitation	<b>362,332</b>	658,207
Make-good obligation under lease agreement	<b>9,800</b>	9,800
	<b>372,132</b>	668,007

**(a) Movement in provision for rehabilitation**

	2011 \$	2010 \$
<i>Joint ventures – jointly controlled assets</i>	<b>658,207</b>	553,920
Additional provisions recognised	<b>486,924</b>	269,945
Amounts used	-	(172,943)
Transfer upon sale of discontinued operation (note 4)	<b>(819,151)</b>	-
Exchange variance	<b>36,352</b>	7,285
Closing balance 30 June	<b>362,332</b>	658,207

The amount represents the obligation to restore land disturbed during mining activities to the conditions specified in the mining licence.

**(b) Movement in provision for make-good under lease agreement**

	2011 \$	2010 \$
Opening balance 1 July	<b>9,800</b>	9,800
Closing balance 30 June	<b>9,800</b>	9,800

The provision for make-good represents the Group's obligation under a lease agreement to return a property to its original condition upon termination of the lease.

Notes to the Consolidated Financial Statements  
 30 June 2011

**22 Issued capital**
**(a) Share capital**

	2011 \$	2010 \$
152,140,466 (2010: 152,140,466) fully paid ordinary shares	<b>61,518,356</b>	61,518,356
Transaction costs relating to share issues (net of tax)	<b>(1,290,782)</b>	(1,169,052)
	<b>60,227,574</b>	60,349,304

**(b) Movements in ordinary share capital:**

Date	Number of shares	Issue price	\$
30 June 2009	82,202,068		42,611,658
<i>Changes in the year from 1 July 2009 to 30 June 2010</i>			
Rights issue (1 for 4) July 2009	20,550,591		<b>4,932,124</b>
Shares issued to acquire non-controlling interest in Galilee Resources Limited June 2010 (refer Note 16)	42,431,285	<b>\$0.260</b>	<b>11,032,134</b>
Capitalise loan from Becamal Pty Ltd June 2010 (Note 31)	6,956,522	<b>\$0.345</b>	<b>2,400,000</b>
Expenses in relation to share issues (net of tax)			<b>(626,612)</b>
30 June 2010	152,140,466		<b>60,349,304</b>
<i>Changes in the year from 1 July 2010 to 30 June 2011</i>			
De-recognition of deferred tax asset originally credited to equity (Note 6)			<b>(121,730)</b>
30 June 2011	152,140,466		<b>60,227,574</b>

**(c) Ordinary shares**

Ordinary shares entitle the holder to participate in dividends and the proceeds on winding up of the company in proportion to the number of and amounts paid on the shares held.

On a show of hands every holder of ordinary shares present at a meeting in person or by proxy, is entitled to one vote, and upon a poll each share is entitled to one vote.

**(d) Options over shares**

Refer to Note 23 for details of share options.

**(e) Capital Management**

Management controls the capital and the debt of the group to ensure that it can fund its operations and continue as a going concern.

The group's capital and debt includes ordinary share capital and financial liabilities, supported by financial assets. There are no externally imposed capital requirements.

Management manages the group's capital by assessing the group's financial risks and adjusting its capital structure in response to changes in these risks and in the market. Responses to these changes include management of debt levels and share issues.

There have been no changes in the strategy since the prior year.



**23 Share-based payments**

On 3 December 2009, two directors were issued with 2,000,000 options each to take up ordinary shares with an exercise date of 3 years from their issue date. 1,000,000 options for each director with an exercise price of \$0.80 will vest one year from their issue date, and the remainder with an exercise price of \$0.87 will vest two years from their issue date. On 4 December 2008, two directors were issued with 2,000,000 options each to take up ordinary shares with an exercise date of 3 years from their issue date. 1,000,000 options for each director with an exercise price of \$0.30 will vest one year from their issue date, and the remainder with an exercise price of \$0.35 will vest two years from their issue date.

The options issued to directors hold no voting or dividend rights and are not transferable, other than to related parties of the directors involved. The fair value of the options granted is deemed to represent the value of the directors' services received over the vesting period. The options have no service conditions and are not forfeited upon exit from the group.

On 31 March 2010 Patersons Securities were issued with 1,000,000 options to take up ordinary shares with an exercise date of 3 years from issue date and an exercise price of \$0.80 fully vested.

	2011		2010	
	No. of Options	Weighted average exercise price	No. of Options	Weighted average exercise price
Outstanding at beginning of the year	9,000,000	\$0.604	4,000,000	\$0.325
Granted	-	-	5,000,000	\$0.828
Forfeited	-	-	-	-
Exercised	-	-	-	-
Expired	-	-	-	-
Outstanding at end of year	9,000,000	\$0.604	9,000,000	\$0.604
Exercisable at end of year	7,000,000	\$0.600	3,000,000	\$0.467

The weighted average remaining life of options outstanding at the year end was 1.132 years (2010: 2.132 years).

The options outstanding at the end of the year have exercise prices ranging from \$0.30 to \$0.87 (2010: \$0.30 to \$0.87).

There were no options granted during the year. The fair values of options granted in 2010 were calculated using a binomial model tailored specifically for use in valuing employee and director options, applying the following inputs:

	2010	
	One year	Two years
Weighted average exercise price:	\$0.80	\$0.87
Weighted average life of the option:	\$0.384	\$0.384
Underlying share price:	75%	75%
Expected share price volatility:	4.72%	4.72%
Risk-free interest rate:		
Fair value	\$0.1126	\$0.1148

The expected share price volatility was estimated based on expected future volatility taking into account the level of historical volatility in the share price.

Included under Directors' Remuneration expense in profit or loss is \$290,217 which relates to equity-settled share-based payment transactions (2010: \$349,333).

Included in share issue costs within equity - \$nil which relates to equity-settled share based payment transactions (2010: \$71,700).

**24 Parent Company Information**

The *Corporations Act* requirement to prepare parent company financial statements where consolidated financial statements are prepared has been removed and replaced by the new regulation 2M.3.01 which requires limited disclosure in regards to the parent company Galilee Energy Limited. The consolidated financial statements incorporate the assets, liabilities and results of the parent company in accordance with the accounting policy described in Note 1 (b).

<b>Galilee Energy Limited</b>	<b>2011</b>	<b>2010</b>
	<b>\$</b>	<b>\$</b>
Current assets	<b>41,385,313</b>	9,410,056
Non-current assets	<b>27,751,414</b>	38,175,395
<b>Total assets</b>	<b>69,136,727</b>	47,585,451
Current liabilities	<b>682,306</b>	915,677
Non-current liabilities	<b>33,179</b>	21,646
<b>Total liabilities</b>	<b>715,485</b>	937,323
<b>Net assets</b>	<b>68,421,242</b>	46,648,128
Issued capital	<b>60,227,574</b>	60,349,304
Share-based payments reserve	<b>856,500</b>	566,283
Retained earnings/(accumulated losses)	<b>7,337,168</b>	(14,267,459)
<b>Total shareholders' equity</b>	<b>68,421,242</b>	46,648,128
<b>Profit/(Loss) for the year</b>	<b>21,604,627</b>	6,221,066
<b>Total comprehensive income/(loss) for the year</b>	<b>21,604,627</b>	6,221,066

The net assets of the parent include an investment in Galilee Resources Limited of \$24,090,412 (2010: \$24,090,412), for which no exploration and evaluation expenditure has been capitalised in the consolidated entity. In the opinion of the Directors the investment in this subsidiary is not impaired.

**Contractual commitments**

The parent company had no contractual commitments for the acquisition of property, plant and equipment at 30 June 2011 (2010: \$Nil). The parent company has not guaranteed the debts of any subsidiary company (2010: \$Nil), other than through its tax sharing and tax funding agreements.

**Contingent Liabilities**

The parent company has no contingent liabilities (2010: \$Nil).

**25 Commitments**
**(a) Lease commitments : Group as lessee**
**(i) Operating leases**

The Group leases its office premises under a non-cancellable operating lease expiring within four years. The lease has an escalation clause and renewal rights.

Commitments for minimum lease payments in relation to non-cancellable operating leases are payable as follows:

	2011	2010
	\$	\$
Within one year	171,997	289,269
Later than one year but not later than five years	526,137	715,085
Later than five years	-	133,058
	698,134	1,137,412

**(ii) Finance leases**

	2011	2010
	\$	\$
Commitments in relation to finance leases are payable as follows:		
Within one year	-	759,543
Later than one year but not later than five years	-	991,085
Later than five years	-	-
	-	1,750,628
Minimum lease payments	-	1,750,628
Future finance charges	-	(200,380)
	-	1,550,248
Recognised as a liability	-	1,550,248
Representing lease liabilities:		
Current (note 20)	-	634,758
Non-current (note 20)	-	915,490
	-	1,550,248

All finance leases were transferred to the purchaser on the sale of the group's discontinued operation.

**(b) Exploration commitments**
**(i) Galilee Resources Limited**

In order to maintain current rights to tenure to exploration and mining tenements, the consolidated entity has exploration expenditure obligations until expiry of the tenement holdings.

If the consolidated entity decides to relinquish certain leases and/or does not meet these obligations, assets recognised in the statement of financial position may require review to determine the appropriateness of carrying values. The sale, transfer or farm-out of exploration rights to third parties reduces or extinguishes these obligations.

**25 Commitments (continued)**
**(b) Exploration commitments (continued)**
**(i) Galilee Resources Limited (continued)**

In the case of ATP799P the obligations were renegotiated upon expiry on 28 February 2010 for a further term to expire on 28 February 2014 subject to mandatory relinquishment of  $\frac{1}{3}$  of tenement blocks and further expenditure totalling \$6,000,000.

In the case of ATP529P, 50% of the exploration rights were transferred to AGL Energy Ltd under a farm-in agreement entered into in July 2008. The Group's exploration commitments have been met. The Group will negotiate new expenditure commitments with the Queensland Government on renewal in November 2012.

In the case of ATP799P, expenditure targets both annual and for the period of the term can be reduced at the Minister's discretion, by the relinquishment of unwanted blocks, nominated by the ATP holder.

	2011	2010
	\$	\$
Commitments in relation to exploration permit ATP 799 are as follows:		
Within one year	-	-
Later than one year but not later than five years	<b>4,302,536</b>	6,000,000
Minimum payments	<b>4,302,536</b>	6,000,000

**26 Contingent liabilities**

The group has no contingent assets or liabilities.

**27 Operating Segments**
**(a) Accounting policies adopted**

Unless stated otherwise, all amounts reported to the Chief Executive Officer, being the chief operating decision maker with respect to operating segments, and the Board, are determined in accordance with accounting policies that are consistent to those adopted in the annual financial statements of the Group.

**(b) Inter-segment transactions**

An internally determined transfer price is set for all inter-segment sales. This price is reset as required and is based on what would be realised in the event the sale was made to an external party at arm's length. All such transactions are eliminated on consolidation of the Group's financial statements.

Management fees are charged to reporting segments based on the segments' estimated use of head office resources.

Inter-segment loans payable and receivable are initially recognised at the consideration received/to be received net of transaction costs. Interest is charged on inter-segment loans receivable and payable on commercial terms.

**(c) Segment assets**

Except for assets held by head office, segment assets are usually clearly identifiable on the basis of their nature and physical location.

**27 Operating Segments (continued)**
**(d) Segment liabilities**

Liabilities are allocated to segments where there is a direct nexus between the incurrence of the liability and the operations of the segment. Segment liabilities include trade and other payables direct borrowings, and tax liabilities where they can be related to a particular segment.

**(e) Unallocated items**

The only items of revenue, expenses, assets and liabilities not allocated to operating segments are head office items.

**(f) Segment performance**

*Coal mine operations* refers to the discontinued operation of two coal mines and a coal distribution facility on New Zealand's south island and includes exploration and evaluation activities relating to those operations. *Exploration and evaluation* refers to coal and coal seam gas deposits in Queensland.

	Coal mine operations (discontinued) \$	Exploration and evaluation \$	Consolidated \$
<b>2011</b>			
Revenue from sales to external customers	17,737,273	-	17,737,273
Financial instruments (continued)	335,784	1,022,023	1,484,809
Total segment revenue/income	<u>18,073,057</u>	<u>1,022,023</u>	<u>19,222,082</u>
Segment net profit/(loss)	33,621	(4,433,521)	(4,399,900)
Unallocated items:			
Gain on disposal of discontinued operation			<u>25,830,166</u>
Profit for the year			<u>21,430,266</u>
<b>2010</b>			
Revenue from sales to external customers	22,705,955	-	22,705,955
Other revenue	89,002	265,424	354,426
Total segment revenue/income	<u>22,794,957</u>	<u>265,424</u>	<u>23,060,381</u>
Segment net profit/(loss)	1,982,531	(5,731,632)	(3,749,101)
Unallocated items:			
Gain on disposal of discontinued operation			<u>5,347,159</u>
Net profit before tax			<u>1,598,058</u>

**27 Operating Segments (continued)**
**(g) Segment net assets**

	Coal mine operations (discontinued) \$	Exploration and evaluation \$	Consolidated \$
<b>2011</b>			
Segment assets	-	42,186,893	42,186,893
Segment liabilities	-	(1,086,660)	(1,086,660)
Group net assets	-	41,100,233	41,100,233
<b>2010</b>			
Segment assets	16,157,431	9,873,368	26,030,799
Segment liabilities	(5,933,897)	(1,055,397)	(6,989,294)
guaranteed party defaulting; and	10,223,534	8,817,971	19,041,505

**(h) Geographical segments**

All segment information relating to the New Zealand geographical segment is identical to the coal mine operations segment. All segment information for the Exploration and Evaluation segment relates to Australia.

**28 Notes to the Statement of Cash Flows**

	2011 \$	2010 \$
<b>Reconciliation of profit for the year to net cash flows from operating activities:</b>		
Profit for the year	<b>21,430,266</b>	1,598,058
Gains on disposal of discontinued operations	<b>(25,830,166)</b>	(7,638,798)
Depreciation	<b>704,786</b>	1,049,231
Amortisation	<b>560,930</b>	571,163
Losses on disposal of property, plant and equipment	<b>298,430</b>	37,322
Unrealised exchange differences	<b>756,657</b>	(145,131)
Share-based payments	<b>290,217</b>	349,333
Changes in operating assets and liabilities:		
(Increase) decrease in trade and other receivables	<b>(2,621,471)</b>	(745,198)
(Increase) decrease in inventories	<b>271,805</b>	(157,090)
(Increase) decrease in overburden in advance	<b>307,961</b>	367,181
(Increase) decrease in rehabilitation asset	<b>(455)</b>	150,149
Increase (decrease) in trade and other payables	<b>2,012,512</b>	20,394
Increase (decrease) in net deferred tax asset and liability	<b>(294,749)</b>	806,984
Increase (decrease) in provisions	<b>304,447</b>	104,287
<b>Net cash provided by operating activities</b>	<b>(1,808,830)</b>	(3,632,115)

**29 Non-cash investing and financing activities**

	2011 \$	2010 \$
Acquisition of plant and equipment by means of finance leases	<b>517,542</b>	217,064
Conversion of related party loan to equity	-	2,400,000
Issue of shares to acquire non-controlling interests	-	11,032,134

**30 Events occurring after the balance sheet date**

No events have occurred after the balance sheet date that require recognition or disclosure in the financial report.

**31 Related party transactions**
**(a) Parent entity**

The parent company within the Group and the ultimate parent company is Galilee Energy Limited.

**(b) Subsidiaries**

Interests in subsidiaries are set out in note 16.

**(c) Key management personnel**

Disclosures relating to key management personnel are set out in note 7.

**(d) Transactions with related parties**

Becamal Pty Ltd was a related party until the resignation of C G Smith because he was a director and shareholder.

	2011	2010
	\$	\$
<i>Loan from Becamal Pty Ltd</i>		
Opening balance 1 July	200,000	2,600,000
Loan reduction - consideration for shares issued (refer Note 22)	-	(2,400,000)
Loan repayment in cash	(200,000)	-
	<hr/>	<hr/>
Closing balance 30 June	-	200,000
	<hr/>	<hr/>
<i>Other transactions with Becamal Pty Ltd</i>		
Interest on loan	9,534	289,118
	<hr/>	<hr/>
<i>Payable to Becamal Pty Ltd at 30 June for:</i>		
Interest on loan	-	485,819
	<hr/>	<hr/>

There were no other loans to or from key management personnel during the year.

**(e) Terms and conditions**

All transactions with related parties are made on normal commercial terms and conditions and at market rates, except that there are no fixed terms for the repayment of loans between the parties. The average interest rate on loans during the year was 12.0% (2010: 12.0%).

Outstanding balances are unsecured and are payable in cash.

### 32 Financial instruments

The Group's financial instruments consist of deposits with banks, short-term investments, accounts receivable and payable, and loans to and from subsidiaries.

The totals for each category of financial instruments, measured in accordance with AASB 139 as detailed in the accounting policies to these financial statements are as follows:

	2011 \$	2010 \$
<b>Financial assets</b>		
Cash and cash equivalents	40,287,838	11,435,340
Trade and other receivables	1,725,756	2,473,073
	42,013,594	13,908,413
<b>Financial liabilities</b>		
Trade and other payables	714,528	2,137,783
Financial liabilities	-	3,781,444
	714,528	5,919,227

The Group's financial risk management strategy seeks to assist the group to meet its financial targets while minimising potential adverse effects on financial performance.

Risk management is carried out under policies approved by the Board of Directors. The Board provides principles for overall risk management, as well as policies covering specific areas, such as mitigating foreign exchange, interest rate and credit risks, use of derivative financial instruments and investing excess liquidity.

#### Specific financial risk exposures and management

##### (a) Credit risk

The group is exposed to credit risk through its cash and cash equivalents. At 30 June 2011 the group had \$40,287,538 (2010: \$11,434,045) in accounts with the Westpac Banking Corporation and National Australia Bank. And receivables as set out in note 11.

##### (b) Liquidity risk

Prudent liquidity risk management implies maintaining sufficient cash and marketable securities and the availability of funding through an adequate amount of committed credit facilities. Due to the dynamic nature of the underlying businesses the Group aims at maintaining flexibility in funding by arranging appropriate banking facilities as and when required. At the reporting date the Group held cash and cash equivalents of \$40,287,838 (2010: \$11,435,340) and access to unused bank overdraft facilities of \$Nil (2010: \$437,927).

All financial liabilities of the continuing business totalling \$253,844 (2010: \$1,029,821) are due and payable within six months of the reporting date.

##### (c) Market risk

###### (i) Interest rate risk

Exposure to interest rate risk arises on financial assets and liabilities because a future change in interest rates will affect future cash flows of variable rate financial instruments.

###### (ii) Foreign exchange risk

Foreign exchange risk arises from financial assets and liabilities denominated in a currency that is not the operating entity's functional currency. The group's reporting currency is Australian dollars (AUD). At the reporting date the group held no financial assets or liabilities in any other currency (2010: financial assets in New Zealand dollars AUD4,101,366; financial liabilities in New Zealand dollars AUD4,713,023; relating to a discontinued operation whose functional currency was New Zealand dollars).



**32 Financial instruments (continued)**
**Sensitivity Analysis**

The following table illustrates sensitivities to the Group's exposures to changes in interest rates and exchange rates. The table indicates how profit and equity values reported at balance date would have been affected by changes in the relevant risk variable. These sensitivities assume that the movement in a particular variable is independent of other variables.

	Profit \$	Equity \$
<i>Year ended 30 June 2011</i>		
+/- 2% in interest rates	-/+ 367,948	-/+ 367,948
+/- 5% in exchange rate NZD/AUD	Nil	Nil
<i>Year ended 30 June 2010</i>		
+/- 2% in interest rates	-/+ 21,785	-/+ 21,785
+/- 5% in exchange rate NZD/AUD	+/- 59,994	+/- 163,303

**(d) Fair value estimation**

The Group has no financial assets or financial liabilities for which the fair value differs materially from the carrying value in the financial statements.

**33 Reserves**

	2011 \$	2010 \$
Share based payments reserve	<b>909,135</b>	618,918
Foreign currency translation reserve	-	(459,975)
Non-controlling interests elimination reserve	<b>(7,656,400)</b>	(7,656,400)
	<b>(6,747,265)</b>	(7,497,457)

**(i) Share based payments reserve**

This reserve reflects the fair value of equity instruments granted under share-based payment arrangements.

**(ii) Foreign currency translation reserve**

Exchange differences arising on translation of the foreign subsidiaries are taken to the foreign currency translation reserve, as described in note 1(c). The reserve is reclassified to profit or loss when the investment is disposed.

**(iii) Non-controlling interests elimination reserve**

This reserve has arisen as a result of the acquisition of the non-controlling interests in subsidiary company Galilee Resources Limited. The value of consideration paid for the non-controlling interests was greater than the carrying value of the non-controlling interests acquired.

## Directors declaration

The directors of the company declare that:

1. The financial statements, comprising the statement of comprehensive income, statement of financial position, statement of cash flows, statement of changes in equity and accompanying notes are in accordance with the Corporations Act 2001 and:
  - (a) comply with Accounting Standards and the Corporations Regulations 2001; and
  - (b) give a true and fair view of the consolidated entity's financial position as at 30 June 2011 and of its performance for the year ended on that date.
2. The company has included in the notes to the financial statements an explicit and unreserved statement of compliance with International Financial Reporting Standards.
3. In the directors' opinion, there are reasonable grounds to believe that the company will be able to pay its debts as and when they become due and payable.
4. The directors have been given the declarations by the chief executive officer and chief financial officer required by section 295A of the Corporations Act 2001.

This declaration is made in accordance with a resolution of the directors.



Steven J Koroknay  
Chairman

Brisbane  
1 September 2011

## INDEPENDENT AUDITOR'S REPORT

To the members of Galilee Energy Limited

### Report on the Financial Report

We have audited the accompanying financial report of Galilee Energy Limited, which comprises the consolidated statement of financial position as at 30 June 2011, consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year ended on that date, a summary of significant accounting policies, other explanatory notes and the directors' declaration of the consolidated entity comprising the company and the entities it controlled at the year's end or from time to time during the financial year.

### Directors' Responsibility for the Financial Report

The directors of the company are responsible for the preparation of the financial report that gives a true and fair view in accordance with Australian Accounting Standards and the *Corporations Act 2001* and for such internal control as the directors determine is necessary to enable the preparation of the financial report that is free from material misstatement, whether due to fraud or error. In Note 1, the directors also state, in accordance with Accounting Standard AASB 101 *Presentation of Financial Statements*, that the financial statements comply with *International Financial Reporting Standards*.

### Auditor's Responsibility

Our responsibility is to express an opinion on the financial report based on our audit. We conducted our audit in accordance with Australian Auditing Standards. Those standards require that we comply with relevant ethical requirements relating to audit engagements and plan and perform the audit to obtain reasonable assurance about whether the financial report is free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial report. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the financial report, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation of the financial report that gives a true and fair view in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the financial report.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

## Independence

In conducting our audit, we have complied with the independence requirements of the *Corporations Act 2001*. We confirm that the independence declaration required by the *Corporations Act 2001*, which has been given to the directors of Galilee Energy Limited, would be in the same terms if it had been given to the directors at the time that this auditor's report was made.

## Auditor's Opinion

In our opinion:

- (a) the financial report of Galilee Energy Limited is in accordance with the *Corporations Act 2001*, including:
  - (i) giving a true and fair view of the consolidated entity's financial position as at 30 June 2011 and of its performance for the year ended on that date; and
  - (ii) complying with Australian Accounting Standards (including the Australian Accounting Interpretations) and the *Corporations Regulations 2001*; and
- (a) the financial report also complies with *International Financial Reporting Standards* as disclosed in Note 1.

## Significant Uncertainty Regarding the Recoverability of Other Receivables

Without qualification of our opinion, we draw attention to note 11 describing the uncertainty relating to the recoverability of Other Receivables of \$800,881 owed to the consolidated entity. This amount relates to the purchase price adjustment for the sale of the consolidated entity's investment in Eastern Resources Group Limited. This amount is currently disputed by the purchaser and is subject to arbitration, the outcome of which is uncertain at this time. The dispute between the vendor (ie. consolidated entity) and purchaser has arisen as Eastern Resources Group Limited has incurred a tax liability prior to completion date for the sale, however tax liabilities were not explicitly identified in the Share Purchase Agreement as an item that would impact the purchase price adjustment. The Other Receivable recognised by the consolidated entity has not been adjusted for any potential tax liability incurred by Eastern Resources Group Limited. Should the consolidated entity receive an unfavourable outcome from the arbitration process and/or any subsequent litigation, Other Receivables of \$800,881 or some proportion thereof may not be recoverable. No adjustment has been made in the financial statements should Other Receivables of \$800,881 or any proportion thereof not be recovered by the consolidated entity.

## Report on the Remuneration Report

We have audited the Remuneration Report included in the directors' report for the year ended 30 June 2011. The directors of the company are responsible for the preparation and presentation of the Remuneration Report in accordance with section 300A of the *Corporations Act 2001*. Our responsibility is to express an opinion on the Remuneration Report, based on our audit conducted in accordance with Australian Auditing Standards.



## Auditor's Opinion

In our opinion, the Remuneration Report of Galilee Energy Limited for the year ended 30 June 2011, complies with section 300A of the *Corporations Act 2001*.

BDO Audit (QLD) Pty Ltd

Handwritten initials 'BJO' in black ink.

Handwritten signature of C R Jenkins in black ink, written over a horizontal line.

C R JENKINS

Director

Brisbane, 1 September 2011

## Shareholder Information

Shareholder information set out below was applicable as at 30 September 2011

The Company has the following securities on issue:

ASX quoted: 152,140,466 ordinary shares, each fully paid

Unquoted: 9,000,000 options, as detailed (g)

(a) Distribution of ordinary shares

Analysis of shareholders by size of holding:

Range	Total Holders	No of shares	% of Issued Capital
1 – 1,000	294	159,218	0.10
1,001 – 5,000	822	2,382,727	1.57
5,001 – 10,000	383	3,186,309	2.09
10,001 – 100,000	634	20,327,996	13.36
100,001 – and over	140	126,084,216	82.87
<b>Total Holders</b>	<b>2,273</b>	<b>152,140,466</b>	<b>100.00</b>

The number of shareholders holding less than a marketable parcel (minimum \$500.00 at 0.1950 per share) is 709.

(b) 20 Largest Shareholders

Rank	Shareholder	Units	% of Units
1.	BECAMAL PTY LTD <GORDON SMITH FAMILY A/C>	25,643,142	16.85
2.	ECARLATE PTY LTD	18,342,608	12.06
3.	EKCO INVESTMENTS PTY LTD	8,881,011	5.84
4.	AMP LIFE LIMITED	8,419,967	5.53
5.	COROSTAR PTY LTD <THE CAMPBELL SMITH A/C>	3,919,116	2.58
6.	JADE SECURITIES PTY LTD <BEK UNIT A/C>	3,000,000	1.97
7.	VENTURIN NOMINEES PTY LIMITED	2,996,337	1.97
8.	HSBC CUSTODY NOMINEES (AUSTRALIA) LIMITED	2,355,000	1.55
9.	PACIFIC ROAD PROVIDENT PTY LTD	1,701,000	1.12
10.	PACIFIC TUG PTY LTD <THE KYTHERA UNIT A/C>	1,698,984	1.12
11.	EDWARDS INVESTMENTS AUSTRALIA PTY LTD	1,401,975	0.92
12.	KIRKHAM INVESTMENTS AUSTRALIA PTY LTD	1,401,975	0.92
13.	MR R C WILSON + MRS S F WILSON <THE WILSON S/F A/C>	1,362,582	0.90
14.	ARLES INTERNATIONAL LTD	1,314,286	0.86
15.	MR D K EDWARDS + MRS R M EDWARDS <EDWARDS SUPER FUND A/C>	1,247,085	0.82
16.	MR P R KIRKHAM + MRS E A KIRKHAM <KIRKHAM SUPER FUND A/C>	1,165,206	0.77
17.	MR P M SHANNON + MRS R J SHANNON <SHANNON SUPER FUND A/C>	1,130,000	0.74
18.	CUDECO LIMITED	1,095,239	0.72
19.	MCINTYRE SUPERANNUATION FUND PTY LTD <MCINTYRE FAMILY S/F A/C>	1,056,791	0.69
20.	ABN AMRO CLEARING SYDNEY NOMINEES PTY LTD <CUSTODIAN A/C>	1,015,404	0.67
<b>Totals</b>		<b>89,147,708</b>	<b>58.60</b>

## (c) Substantial shareholders

1	Becamal Pty Ltd <Gordon Smith Family A/C>	25,643,142	16.85
2	Ecarlate Pty Ltd	18,342,608	12.06
3	Ekco Investments Pty Ltd	8,881,011	5.84
4	AMP Life Limited	8,419,967	5.53

## (d) Voting Rights

The voting rights attaching to each class of equity securities are set out below:

## (i) Ordinary Shares

On a show of hands every member present at a meeting in person or by proxy shall have one vote and upon a poll each share shall have one vote.

## (ii) Options

Holders of options have no voting rights until such options are exercised

## (e) Share Buy-backs

There is no current on-market buy-back.

## (f) Restricted securities

There are no restricted securities (held in escrow) on issue.

## (g) Optionholder Details

Unquoted options are held as follows:

	Number held	Excise Prices	Expiry Dates
Directors (including former directors)	8,000,000	30c – 87c	4 Dec 2011 – 3 Dec 2012
Colbern Fiduciary Nominees Pty Ltd	1,000,000	24c	3 Dec 2012

## Tenement Interests

Coal Seam Gas	Interest	Basin	Location
ATP 799P	100%	Galilee	Queensland
ATP 529P	50% Galilee Energy Limited 50% AGL Energy Limited	Galilee	Queensland



# **GALILEE**

**ENERGY LIMITED**

**GALILEE ENERGY LIMITED**

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